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USAID AND THE GOVERNMENT OF INDONESIA
YEAR 2001

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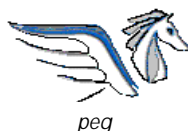
Nathan/Checchi Joint Venture

Partnership for Economic Growth (PEG) Project

Under USAID Contract #497-C-00-98-00045-00

(Project #497-0357)

August 2002



Partnership for Economic Growth

Suite 304, Setiabudi Atrium
Plaza Setiabudi
Jl. HR. Rasuna Said, Kuningan
Jakarta 12920, Indonesia
Tel.: 520 1047 Fax: 521 0311
Website: www.pegasus.or.id

2001 ANNUAL REPORT SUMMARY

Contractor: Nathan/Checchi Joint Venture

Contract No. 497-C-00-98-00045-00

Reporting Period: January 1 through December 31, 2001

From: C. Stuart Callison, Chief of Party

This summary report contains four main sections:

1. Contract Final Objective, page 1
2. Expected Results, page 2
3. Current Core Activities, including a Consolidated PEG SOW and Work Plan, page 2
4. Performance During the Year, page 17, including a 4-page general summary and then a specific list of accomplishments under each of the six IRs targeted by the activity

1. Contract Final Objective: The Contract was designed to provide both technical and grant assistance to Indonesia under an activity called the Partnership for Economic Growth (PEG). The goal of the technical assistance (PEG-TA) is to help Indonesia resume and sustain its economic growth by strengthening economic policies and practices associated with increased openness to international trade and investment and strengthened domestic economic competition. PEG-TA was to place and support long- and short-term technical advisors in a series of institutions that are critical to formulating and executing policies needed to improve the international trade regime and domestic economic competition. Other advisors were to provide information, intellectual capital, and analytical support to key policy-making officials in support of the economic growth strategic objective and/or crisis-related topics. The focus was to be on analysis and advice for policy review and formulation. Major institutional development work was not planned. However, strengthening of staff through transfer of intellectual capital and technical skills on key policy issues was expected. Therefore, the use of seminars and short-term training both in Indonesia and in the United States is an element of PEG-TA.

The overall goal of the grants program (PEG-G) is to sustain Indonesia's economic growth by strengthening economic policies and practices associated with increased openness to international trade and investment and strengthened domestic economic competition. It was designed to establish long-lasting relationships between America's premier public and private

institutions with counterpart groups in Indonesia to assist in formulating and implementing these economic policies and practices. The PEG grants manager prepares a separate annual report for the PEG-G component, and it is not dealt with in this report except that the LOE and estimated costs associated with it are included in the following paragraph.

The PEG Contract is a cost-plus-fixed-fee (CPFF) term contract. It was signed on October 7, 1998. It called for an LOE of 472 person months (pm) during the first 2 years and an optional 3rd year, which was exercised by letter on April 26, 2000, at a total cost of \$17,628,802, which included plug figures of \$5,000,000 for grants and \$880,000 for training. Contract Modification No. 3 signed in January 2001 extended the estimated completion date from October 7, 2001, to October 7, 2002, although most of the TA was funded only through June 2001 (while the grants component was to continue through September 2002). In July 2001 Modification No. 5 authorized a 4th extension year, funding most of the TA through June 2002. It increased the Contract LOE to 621 pm and authorized total funding up to \$22,428,290. As of December 31, 2001, cumulative expenditures to date were \$16,160,223 and the remaining unexpended balance was \$5,094,698, while 477.6 pm had been provided and 143.4 pm remained.

2. Expected Results: The PEG-TA is expected to support the achievement of USAID/Indonesia's strategic objective framework, in particular its strategy for economic growth and its special objective pertaining to the current economic crisis. This includes the intermediate results related to international trade and domestic economic competition and the policy reform process initiated by the IMF to deal with the current economic crisis.

Under the USAID Mission's Strategic Objective 1 (SO-1), "Foundations set for rapid, sustainable and equitable economic growth," the following intermediate results are targeted:

- 1) Sound economic policy and institutions;
- 2) A conducive legal and regulatory framework;
- 3) Open access to economic opportunity; and
- 4) Knowledgeable public participation in economic decision-making.

Under the Mission's Special Objective 14 (SO-14), "Recovery of the Economic & Financial System," the PEG Contract targets the following intermediate results:

- 5) Financial sector restructured and governance improved; and
- 6) Public sector policy and governance improved.

3.a. Current Core Activities: The PEG Contract specifies the provision of a number of long-term economic advisors and provides brief scopes of work (SOWs) for their activities. Each advisor then works out an annual work plan, pursuant to this SOW, with his chief counterpart, which is also informally approved by the CTO. The contract SOWs and the specific work plan activities are listed by advisor below. Note that two advisors left (Bob Rice and Peter Rosner) and three advisors joined (William "Ted" James, Chris Manning, and Idris Suliaman) the project during this reporting period. The SOW for Dr. Chris Manning was added in the official correspondence between the Joint Venture and USAID/Contract during the negotiations leading up to Contract Modification #5, which increased the LOE and the authorized funding level for the 4th year of the contract. Dr. Sulaiman was hired on a long-term basis, at USAID's request, using short-term person months, beginning in July 2001, and since the contract did not contain a SOW for him only his work plan is included below. The chief of party, Gary Goodpaster, left the project near the end of February 2001 and was replaced by Dr. C. Stuart Callison.

Consolidated PEG Scope of Work (SOW) and Work Plan for 2001:

(a) Technical Assistance on Domestic Trade in the Ministry of Industry and Trade [Strategic focus: domestic competition, decentralization and domestic trade] Advisor: David Ray

In an Indonesian economy that is increasingly open to and committed to international competition, certain aspects of the Indonesian domestic economy are not yet functioning efficiently and equitably. There are government-owned and operated monopolies and oligopolies that are charging far above a competitive price. There are businesses that are inefficient because they lack adequate capital, well-trained and efficient labor, or appropriate technology. Governmental units, particularly below the national level, are often intervening inappropriately in ways that undercut the efficient scale of the national market in Indonesia and create high and inappropriate costs for businesses. Governmental procedures, designed for a different era, in fact remain overly complex, overly directive, and written to provide only detailed procedural guidance to the behavior of companies. Inappropriate protection measures have been put into place. Many of these issues have been addressed under the series of LOI's to the IMF.

The convergence of slowing world export markets in 2001, with the implementation of decentralization in Indonesia has increased pressure to re-regulate the economy. By bringing government "closer to the people" decentralization brings with it the opportunity for more efficient and accountable government. However, decentralization also brings with it the threat of uncoordinated setting of taxes, and the use of discriminatory measures such non-tariff barriers to favor locals over outsiders. In short, decentralization if carried out in a non-prudent manner may seriously undermine the local business climate. In the current fiscal climate, taxes on trade or other charges on the movement of goods are a particularly worrisome prospect as they work to undermine national economic integrity and typically drive a wedge between farmgate and wholesales prices thereby depressing agricultural incomes. Effort is required to monitor how decentralization is impacting upon business and trade. Local legislation needs to be reviewed and rescinded if necessary. National laws and institutions need to be further developed to ensure free, open and competitive internal markets in the decentralizing era.

The objectives of the technical assistance in this area are to: (1) assist the MOIT in adopting appropriate means of monitoring and enforcing the new, more open policies related to domestic economic competition brought about by the GOI/IMF reform package, (2) assist in the creation of rules and legislation which will help ensure fair-trade for all parties in the new deregulated environment; (3) address a number of issues, not specifically noted in the GOI/IMF package, such as: reduced concentration within major sectors of the Indonesian economy, reduced distribution costs, and reduced government approval processes to start up a new business; and (4) attempt to ensure that the decentralization process does not undermine the GOI/IMF reform package.

Work Plan Activity 1: Competition, Deregulation and Consumer Protection:

Assist with the development of legislation and supporting institutions at the national level that will help ensure fair trade and competition for all parties in an increasingly deregulated economic environment

Work Plan Activity 2: Distribution Systems: Identification and analysis of issues and problems affecting the distribution sector in general, and/or the distribution system for specific commodities

Work Plan Activity 3: Decentralization and Domestic Trade: Analysis and policy assistance in regards to the impact of regional autonomy upon domestic trade and the business climate at the local level.

Work Plan Activity 4: Transport Policy and Domestic Trade: Analysis and policy assistance with regards to the impact of transport policy and systems upon regional development and domestic trade.

Work Plan Activity 5: Industrial Competitiveness: Research and analysis of key issues affecting Indonesia's industrial competitiveness.

(b) Technical Assistance on International Trade and Investment in the Ministry of Industry and Trade and on Communications Technology in the Ministry of Communications [Strategic focus – international trade and communications technology development] Advisor: Steve Magiera

The international trade advisor will be responsible for satisfying the following requests for technical assistance:

The Ministry of Industry and Trade has requested assistance in the formulation of its trade and investment strategies. This will likely involve both multilateral and unilateral issues. Multilaterally, members of the World Trade Organization (WTO) launched a new round of negotiations on global trade in services and agriculture in 2000. The Indonesian Government will require continued assistance on the technical aspects of existing WTO agreements and on new issues as they are tabled during the negotiations. Other possible requests include assistance on Indonesia's APEC action plan, WTO notifications, and new WTO issues such as trade and the environment.

The Ministry of Industry and Trade has also requested assistance on developing measures to increase the competitiveness of the Indonesian export sector. Among the measures being considered are reductions in regulatory barriers to trade, improvements in trade facilitation programs, improvements in the investment climate, and rationalization of the tariff structure. It is important that in developing policies to promote exports, the Government adopt non-interventionist measures that do not distort trade. In order to develop such policies, each of the above areas may require policy studies supported by USAID.

Several issues require monitoring and analysis. Of immediate concern is the impact on domestic income and employment of the current global economic slowdown. There are continuing domestic pressures to reverse tariff reforms and/or develop new protective measures such as safeguards or anti-dumping duties.

The U.S. Government places a high priority on the development of a modern telecommunications regulatory system that is based on pro-competitive principles around the world. This view also applies to Indonesia. This has been the subject of round-table discussions among U.S. Government representatives and the U.S. business community. US

government actions in support of these concerns have included two videoconferences involving the Indonesian telecommunications community and the Federal Communications Commission of the United States. The Ministry of Communications has requested, and USAID has agreed, that an advisor be placed half time in the Ministry. The Ministry has also requested short-term technical assistance including the establishment of an independent regulatory body and has requested assistance on developing an implementation plan for establishing the body.. Other major issues include the restructuring of the market for basic telecommunication services, interconnection rates, rebalancing the telecommunications tariff structure, spectrum management, universal service obligations, a new broadcasting bill, and information technology development by small-scale industries. Some of the above areas are likely to require training (e.g. frequency management). Other concerns include establishing the road map for implementing an independent regulatory body, will likely require short-term technical assistance.

Work Plan Activity 1: Trade Policy Reform: Update the project's trade policy database and provide policy memorandum on trade policy issues as requested.

Work Plan Activity 2: Support for Indonesia's Participation in Multilateral Trade Negotiations: Provide technical assistance and training on multilateral trade negotiations, including the WTO's build-in agenda on the agricultural and services negotiations.

Work Plan Activity 3: Telecommunications Regulatory Reform. Develop a modern telecommunication regulatory system for Indonesia and assist in the implementation of Indonesia's Telecommunications Law.

Workplan Activity 4: Enhancing Service Industry Competitiveness: Conduct sector studies on regulatory reforms and competitiveness issues in the services sector.

Work Plan Activity 5: Respond to short-run staff requests and prepare speech materials as requested:

Workplan Activity 6: Ad Hoc Requests/Meetings

(c) Macroeconomic Technical Assistance on Trade and Industrial Development for the Ministry of Industry and Trade [Strategic focus: international trade] Advisor: Ted James (started work July 30, 2001)

The objective of the technical assistance in this area is to provide senior officials of the Ministry of Industry and Trade with key technical and economic policy advice on Indonesian macroeconomic matters as they relate to the relationships among international trade, investment in Indonesia and the growth and development of the domestic sectors of the Indonesian economy.

The Contractor will monitor the export and import behavior of various key sectors of the Indonesian economy and report on the current and expected changes in the behavior of the various sectors. This analysis will cover how economic factors impact the Indonesia's domestic markets. The Contractor shall: (1) evaluate Indonesia's trade and investment policies in the context of similar policies being carried out by nations in-Southeast and East Asia (emphasis shall be placed on analyzing Indonesia's competitors as well as model economies); (2) clarify the current and likely behavior of Indonesian key export markets,

such as the United States, the European Union, Korea and Japan; and (3) analyze the overall incentive/disincentive structure of Indonesia's macroeconomic economic policies with respect to the current and expected pace of foreign and domestic investment in Indonesia.

Work Plan Activity 1: Export Performance: Provide analysis of Indonesia's export performance; focus on non-oil manufactured products: international demand factors, market access and competition with other producers. Examine the relative performance of Indonesia compared with other Asian economies in worldwide markets.

Work Plan Activity 2: Institutional Support for Market-Friendly Policies: Conduct activities in order to enhance awareness and understanding of international trade law and seek to improve institutions involved in policy formation with constituency for sound economic policies including government, the private sector and academia. Work will focus on the gains from trade, both international and domestic; the role of international trade institutions in resolving disputes and in providing a framework for Indonesia to preserve and enhance market access for its products and services in the international marketplace.

Work Plan Activity 3: The New Regionalism: Implications for Indonesia: Provide analysis of the possible impacts of new Asian preferential trading arrangements on Indonesian economy. This work will be preliminary until the scope and shape of these new arrangements is understood as these new agreements are notified and enter into force.

(d) Technical Assistance in BAPPENAS [Strategic focus: domestic competition and macroeconomics] Advisor: William Wallace

The economic crisis has fundamentally changed economic variables and parameters that once held, and provided constancy, for Indonesian policy making and budgeting. Budgets prepared only months previously have to be revised, inflation and exchange rate projections updated, and debt levels reassessed.

Therefore the principle objective of this component of the PEG Technical Assistance is to develop improved decision-making and institutional capacity at Bappenas with respect to macroeconomic aspects of fiscal policy, the balance of payments, monetary policy, and debt. In particular the technical assistance is designed to assist Bappenas staff in better understanding macroeconomic dynamics (in the wake of the crisis) and the impact of regional decentralization on national forecasting, budgeting and planning.

The annual budget process is a key component of Indonesian fiscal policy. The technical assistance here is designed to assist Bappenas counterparts in better understanding, evaluating, and estimating key economic relationships and their consequences for tax and non-tax revenues. Further the technical assistance will help Bappenas counterparts to understand, evaluate, and as necessary estimate key expenditure relationships underlying the budget and other fiscal policy matters.

The macroeconomic advisor shall assist Bappenas staff in evaluating and estimating, as necessary, the central economic relationships in the balance of payments and the monetary sector. These include the macroeconomic relationships among, inflation, monetary demand, exchange rate management and the relationship of these key variables to the real sector, and especially trade. In addition, and in line with GOI objectives, this technical assistance will

attempt to assist in improving coordination between fiscal and monetary policy in an environment of extensive public (including public enterprise) and private debt.

Annual national budget and policy priorities will be presented in the context of an umbrella document (the Repeta). As part of this process the advisor may be requested to assist in policy areas not directly related to the budget, or even the macro economy. In particular, poverty has been defined as an overarching objective, and the government has established a goal of requiring a poverty impact assessment in every policy and budget area. Therefore this will remain an important consideration in all work at Bappenas.

The technical assistance will focus on a three-part strategy and will be coordinated with the other PEG technical advisors at Bappenas (especially PEG advisors Dr. Kelly Bird and Dr. Chris Manning). The first focus is on longer term objective(s) that we believe will assist the Indonesian government in achieving their own growth and equity objectives, the second is responsive to the institutional development, and the third to the demand or crisis of the day.

1. With a core macro model focusing on fiscal sustainability in place, critical efforts through June 2002, will be on building in a set of regional consolidated accounts, and upgrading the treatment and reporting on employment in the model.
2. For institutional development, the technical advisor will continue assist counterparts to improve macro and modeling capability and policy analysis, including the writing and presentation of memos to senior management. There are a number of traditional areas that the technical advisor have been working and will continue to be the main areas of concentration. These are the budget, monetary, trade, debt and capital markets policy.
3. The third part is to respond to requests from Bappenas and will include writing memos, speeches, white papers, etc. The technical advisor will try to work the staff into our product as much as possible.

Work Plan Activity 1: Policy Direction: Repeta, model Development, mid-term macroeconomic analysis, policy agenda development and projections.

Work Plan Activity 2: Capacity building: Directorate R&D efforts, continued work on monthly and quarterly annual white papers, macro reports to cabinet

Work Plan Activity 3: Crisis support/catch all: Policy memos and presentations on specific crisis topics as requested.

(e) Macroeconomic Technical Assistance to BAPPENAS [Strategic focus: special crisis-oriented objective] Real Sector Advisor: Kelly Bird

The principle objective of this component of the PEG Technical Assistance is to develop improved decision making and institutional capacity at Bappenas in matters affecting the real sector, including international trade, investment, employment, domestic competition, corporate restructuring and the nature and direction of policy regarding these areas. Given the overlap in their areas of responsibility the advisor's work plan will be coordinated with the work plans of the macro-economic advisor and labor advisors at Bappenas and also including the whole range of ECG advisors, as appropriate.

Together with the macro-economic advisor, the technical advisor shall continue to assist Bappenas staff in evaluating and estimating, as necessary, the economic relationships in the real sector, balance of payments and the monetary sector. These may include the macro-economic relationships among, money, inflation, the exchange rate, capital flows and the relationship of these key variables to the real sector, and especially investment, employment, and trade. The technical assistance provided to Bappenas will also focus on these issues in terms of medium and long-term planning for the Government of Indonesia (including the Repeta process). In addition, the technical advisor will continue to work closely with the staff on improving quality and how information is conveyed, especially in the areas of real sector analysis and macro-economic policy.

The technical assistance will focus on a three-part strategy.

- (f) The first is a focus on longer-term objective(s) that we believe will assist the Indonesian government in achieving their growth and equity objectives. In this regard, the advisor will continue working on bringing an improved understanding of corporate sector issues into the thinking of counterparts. This work is built around restructuring but will also include other broad issues such as investment, trade, and domestic competition etc. In particular this year's work program includes special efforts on retail trade and a proposed investment law.
- (g) The second part is responsive to institutional development. The technical advisor will assist counterparts to improve macro and modeling capability and policy analysis. There are a number of traditional areas that the technical advisor have been working and will continue to be the main areas of concentration. These are the monetary and exchange rate analysis, international trade, private debt and the capital account.
- (h) The third part of the strategy is to respond to requests from BAPPENAS and will include writing memos, speeches, white papers, etc. The technical advisor will try to work the staff into our product as much as possible.

Work Plan Activity 1: Policy Direction: Model Development, mid-term macroeconomic analysis, policy agenda development and projections. Memos as input into the drafting of the investment law. Initiate research with SMERU on the effects of minimum wages on modern and informal sector employment (with the labor policy expert).

Work Plan Activity 2: Capacity building: Assist in directing policy research efforts (macro with Bill Wallace; employment with Chris Manning), continued work on monthly and annual white papers, monetary reports to cabinet; assist staff in macro forecasting as part of the budgetary and Repeta processes.

Work Plan Activity 3: Crisis support/catch all: Policy memos and presentations on specific crisis topics as requested.

(f) Technical Assistance on Labor Policy to Bappenas [Strategic focus: operation of the labor market to ensure policies and programmatic interventions address growth and equity objectives] Advisor: Christopher Manning (started work July 21, 2001)

The operation of the labor market in Indonesia is relatively poorly understood, especially as we look forward post-crisis. Historically, observers have maintained that the labor market -

particularly real wages - were relatively flexible, although there was some evidence that minimum wage legislation pre-crisis was having some negative impact on youth employment, demand for unskilled female workers in certain regions and sectors, and labor demanded by small enterprises. Just recently, the central government established and backed a set of severance regulations that were very poorly received by employers, and regional governments are moving to set minimum wages often in a context of significant labor strife. While compliance with and enforcement of minimum wage legislation was considered low in the past, greater assertiveness by unions and the increasing involvement of local governments in the process raises the possibility that, without a clear understanding of the nation's goals there will be increasing strife in this area.

Fostering economic growth that absorbs new entrants and balances worker and employer concerns is a central economic and political issue. The design of policies and programmatic interventions designed to address these issues is critical. Many of these labor issues are now under discussion in Parliament and will be written into law during the current development program period.

The technical advisor will address these policy concerns in order to help Bappenas assess the various options available to guarantee worker protection and security, while at the same time safeguarding labor market flexibility and employment growth. In this regard, the technical advisor will provide expert analysis on current and proposed laws/regulations on key labor protection issues (e.g., employment contracts, minimum wages, entry and exit regulations). In addition the technical advisor will also assist in improving the monitoring process in the Labor Bureau, including on employment, wages, industrial actions, etc. (This includes additional reporting on an as needed basis for the monthly report that Bappenas prepares).

The technical advisor will be required to assist Bappenas in completing their white paper on Labor issues. His deliverables for this element of the project will be:

- Overall leadership of the Bappenas White Paper effort on labor, including coordination with other efforts,
- A report that reviews the current employment relations and dispute resolution laws,
- Assistance to the PEG subcontractor SMERU in developing materials to assist district governments in thinking about labor policy, and
- Improvements to the labor monitoring database and monthly reports at Bappenas.

The technical adviser will also be involved in capacity building activities including working closely with PEG grantee IRIS. He is expected to supply support in two areas: (i) First, for Kabupaten and Provincial economic development programs with special reference to regional issues in a subset of the following five provinces (East Kalimantan, East and West Java, North Sulawesi and Irian Jaya) in which IRIS already has special programs. (ii) Second he will provide support for the technical secretariat of the national parliament as they move to address the labor-related laws and regulations and other economic issues of interest.

The focus of the assistance in the provinces would be working directly with regional universities and local governments (perhaps Bappenas) build advisory capacity to analyze fiscal decentralization and regional development policies. This activity is critical as provincial and especially district governments take responsibility for a much wider range of development programs. Deliverables might include a handbook on personnel and human resource management practices associated with decentralization, a workshop bringing

together selected university/government personnel from these regions and a chapter in the planned IRIS-LPEM book on decentralizations.

The second area involves raising the economic policy capacity of the parliament in a broad range of areas. This will involve technical support (again in cooperation with PEG grantee IRIS) to build up the analytical and advisory capacity at the parliamentary secretariat. The advisor will assist with policy papers and training activities on topics relating to economic and financial issues. Deliverables would include a series of short policy papers, contributions to training activities and other specific policy issues and written comments on other policy papers as the need arises.

Work Plan Activity 1: Overall leadership of technical assistance on labor policy at the Bappenas culminating in a White Paper on this subject. Prepare memos for Bappenas on various aspects of labor policy, especially minimum wages, for a White Paper. Prepare briefs on employment and poverty alleviation for the Economics Coordinating Minister and Bappenas (Propeta).

Work Plan Activity 2: A review of the current employment relations and dispute resolution laws. Initiation of research on industrial relations laws and practices in the private sector together with SMERU.

Work Plan Activity 3: Assistance to the PEG subcontractor SMERU for materials to help district governments on labor policy. Development of a simple manual on minimum wage setting, designed in comic-format, for provincial and district governments.

Work Plan Activity 4: Improvements to the labor monitoring database and monthly reports at Bappenas. Technical support to the staff of the Directorate of Manpower on several indicators of quarterly and annual change.

Work Plan Activity 5: Capacity building activities with PEG grantee IRIS. Planning of workshops on regional development and fiscal policy for February- July 2002. Technical advice to IRIS on regional university programs and aspects of labor policy to be debated at the Parliament.

(g) Technical Assistance on Small Business Finance Reforms in Bank Indonesia
[Strategic focus: domestic competition] Advisor: Thomas Timberg

The Small Business Finance Adviser is concerned with public policy toward Small, Medium, and Micro Enterprise (SME) finance, one of the key elements of which is how it relates to SMEs themselves and their various spokesmen. In Indonesia, this public policy is partly controlled by the Government under the President and partly by the Central Bank, which has interim responsibility for supervising the banking system.

The Small Business Finance Adviser must also assume responsibility for handling a number of collaborative, non-financial sector programs that were initiated by the Small Business Adviser in the State Ministry for Small Enterprise and Cooperatives, who departed in February 2000.

The adviser has three main clients – the section of the Central Bank which regulates the small, “rural,” banks (the Rural Banking Directorate of Bank Indonesia), the section of the

Central Bank concerned with credit policy (the Credit Bureau of Bank Indonesia), various institutions within and associated with the Ministry for Small Enterprise and Cooperatives.

USAID has a coordinated program with the Rural Banking Directorate of self-study and training – coordinated with a parallel technical assistance from the Germans and the Asian Development Bank. This program has led the section precisely in the direction that might be described as that of the cutting edge – good, cheap supervision. The evolution of BPR Supervision will certainly influence policy for general bank supervision, and the responsible people responsible for bank supervision have been involved in the program. Though the rural banks account for half as much lending (\$250 Million) as the BRI Unit Desas, generally to smaller borrowers, their role seems to be increasing and they represent one of the limited legal entry points for micro finance. A number of USAID grantees such as UKABIMA are involved with them.

The Credit Bureau is in need of technical assistance. The former head of the section was apprehensive about the “new paradigm” on finance in general. He and many of his staff were committed to subsidized, directed credit lines that were their previous focus. They lost all of these by law on Nov. 17, 1999, and are now scheduled to become a small research, policy and TA unit. They have agreed to a collaborative program of training and some joint policy research to help them redefine their role. This program is just beginning to be implemented.

The Ministry and the Small and Medium Enterprise and Cooperatives Development Agency (SMECDA) have lots of ideas, many of them relatively unformulated. But they are conscious that they have few resources and little power, and need to redefine their roles accordingly. One direction has been to work with associated NGOs to use NGO resources as leverage for local community development. They have been assisted, in collaboration with a resident Asian Development Bank Mission, in refining their goals. However, they continue to rely on technical advice and support from USAID technical assistance.

Work Plan Activity 1: To respond to short-term BI crisis related requests for policy analysis in the areas of small and medium enterprises (SME) and alternative financial institutions (AFI), to include reviewing Indonesia’s credit policies toward SMEs and suggesting policy improvements and alternatives that will promote broad-based economic growth in Indonesia.

Work Plan Activity 2: To conduct surveys of financial institutions and SMEs to verify (and correct where necessary), the available data, to include: Undertake surveys of financial institutions and small and medium enterprises, including secular and Islamic cooperatives, commercial banks, BPR (Rural Banks), as well as client SME enterprises and other SMEs. Correlating and integrating survey findings with those of actors, e.g. USAID, other Indonesian government agencies, the ADB, and examine various microfinance plans.

Work Plan Activity 3: To assist in developing networks between commercial banks and alternative financial institutions by analyzing the current condition of AFI and SME in Indonesia, to include: 1) Examining issues relating to the networking of various financial institutions; special attention must be given to Dabenas and Barperindo, as proposed bases for networking the pooling of funds, and other linkage possibilities between AFI and mainstream financial institutions, such as the USAID proposed Microlinks project; 2) Discussing proposed and potential SME initiatives, with particular attention to Islamic banking institutions and their potential in Indonesia; 3) Discussing and negotiating results of these

analyses with other actors to encourage a consensus on action, with additional follow-through activity as necessary.

Work Plan Activity 4: To provide technical assistance and training in assessing alternative ways to handle SME functions, given different assumptions about organizational structure to BI.

(h) Technical Assistance on Open Economy Monetary and Exchange Rate Policy-making Activities for Bank-Indonesia [Strategic focus: special. crisis oriented objective] Advisor: Peter Rosner (left PEG on June 30, 2001)

Bank Indonesia currently faces an extremely difficult operating environment best exemplified by the unprecedented depreciation of the rupiah against the U.S. dollar from Rp. 2,450 to the dollar in mid-July 1997 to more than Rp. 11,000 to the dollar in April 2001. This decline has meant that the current real stock of rupiah that Indonesian residents have been willing to hold has declined substantially. This and the weakness in the economy, in turn, mean that there is severe inflationary pressure if the growth rate of the current nominal stock of rupiah does not decline as the demand for the real stock declines. The result of Bank Indonesia's efforts to manage these concerns has been rising nominal rates of interest on the rupiah. All these changes mean that standard monetary policy tools, such as the money multiplier, have become less useful analytically. Thus, Bank Indonesia faces serious monetary and exchange rate management issues, while at the same time its available technical tools have become more limited.

The objective of the technical assistance to Bank Indonesia in the field of monetary economics is to help provide Bank Indonesia policy-makers with additional economic tools to better understand, assess, and forecast the behavior of Indonesian monetary and exchange rate variables in the context of Indonesia's changing economic growth and inflation circumstances in an open economy. These activities are considered essential to improving the process of short-term monetary and exchange rate policy decision-making by Bank Indonesia.

The technical assistance shall be used to work with Indonesian counterparts to improve understanding of the interaction among variables such as the rupiah exchange rate, the behavior of monetary aggregates, and inflation. In addition, technical assistance shall be used to work with Indonesia counterparts on variables that effect the real sector, such as the capital stock of the economy, employment, and overall, economic growth. The implications of the ways in which these variables and the relationships among them are transformed over time will be major topics for analysis.

The technical assistance will provide analytical support and policy advice in an interactive process with senior BI management. Additional tools for support for the monetary and exchange rate processes will be identified, developed, tested, calculated on a regular basis, and put analytically into practice by BI staff to help them improve the quality of their short-term monetary and exchange rate policy decision-making and management processes. The USAID Advisor will provide support for this process.

Work Plan Activity 1: Quarterly Macroeconomic Model

Work Plan Activity 2: Exchange Rates and Inflation

Work Plan Activity 3: Equilibrium Real Exchange Rate

Work Plan Activity 4: Crisis Support

(i) Technical Assistance on Macroeconomic Policies in the Coordinating Ministry for Economic Affairs [strategic focus: policies affecting the recovery of the Indonesian economy and the impact on the poor] Advisor: Timothy Buehrer

Working under the direction of the Deputy Coordinating Minister for Economic Affairs for the Macroeconomy, Finance, and Bank Restructuring, as well as the senior expert staff member of the Coordinating Minister's office, the technical advisor will be called upon to address a wide range of issues relating to macroeconomic stability, poverty reduction, investment and export promotion, and corporate and bank restructuring. Specific tasks will include, initially, the preparation of a monthly macroeconomic report. However, over time, the expectation is that the technology to prepare and carry out this report will be transferred to staff of the Coordinating Ministry. Tasks will also include studies of the appropriate role of monetary policy in supporting the rupiah and lowering inflation, the impact of economic policies on poverty, appropriate policies to promote rapid export growth, opportunities for increasing foreign and domestic investment, and ways to improve the sustainability of the government's debt, among others. The focus of this technical assistance will be to identify and analyze key macro and micro economic policies affecting the recovery of the Indonesian economy and the impact of the recovery on the poor. A principal focus of the work will be the efficiency benefits of economically oriented policies. This work will cover four general substantive areas:

1. Assisting the government in the preparation of the its poverty reduction program. One important facet of this work will be to assist the staff of the Office of the Coordinating Minister and others to judge the impact of government policies on the incidence of poverty. The goal will be to incorporate a better understanding of how economic policies relate to poverty reduction throughout the policymaking process.
2. Helping to analyze the factors that are important in supporting the recovery of the economy. Over the past year export growth has been a significant driving force in this area. Thus part of this work will focus on understanding the sources of export growth, including the role of export processing zones and other measures in promoting exports. Another activity will involve improving the Coordinating Minister's Office understanding of the role that investment must play in the recovery and helping the staff to develop policies that will promote both domestic and foreign investment. Assistance with issues relating to corporate and bank restructuring will be important in this latter activity.
3. Analyzing fiscal and monetary policy issues and proposing pro-growth policies to support fiscal sustainability. This aspect of the technical assistance will include assisting in the review of revenue and expenditure policies and how they affect the recovery of the economy, developing approaches to balancing the need for fiscal sustainability with the burden that revenue raising measures place on the economy, making recommendations regarding monetary policy for use by the Minister in discussions with the central bank, and assisting in evaluating the sustainability of Indonesia's debt and devising ways in which the debt service burden can be managed

so as to reduce debt service while financing future deficits successfully principally from domestic sources.

4. Improve the capability of the Office of the Coordinating Minister to monitor the performance of the Indonesian economy and anticipate policy issues. The technical advisor will work closely with various staff within the office of the Deputy Coordinating Minister for the Macroeconomy, Finance, and Bank Restructuring to improve their capability to analyze trends in the Indonesian economy on a real-time basis, particularly as they relate to monetary policy, international trade, and inflation. These activities will require increasing their capacity to track key macroeconomic variables quickly and to understand the implications of changes in trends in these variables. Beyond simply addressing past trends, the core objective of this work will be to improve the capability of the staff in thinking through the implications of reported data for the future of the economy. At the same time we will work with the staff to anticipate issues that may arise as the economy develops over the short and medium term.

Workplan Activity 1: Identify and analyze key macroeconomic policies affecting the recovery of the Indonesian economy and the impact of the recovery on the poor.

Workplan Activity 2: Improve the capability of the Office of the Coordinating Minister to track the performance of the Indonesian economy and anticipate policy issues

Workplan Activity 3: Respond to requests from the Office of the Coordinating Minister for Economic Affairs as required.

(j) Technical Assistance on Economic Competition in the Ministry of Cooperatives and Small Business [strategic focus: domestic competition] Advisor: Robert C. Rice (left PEG on Feb. 12, 2001 due to illness in family)

There have been numerous studies around the world of the effects of governmental and private activities in encouraging the development of a vigorous and broadly based constituency for small 'businesses to create jobs and deliver value added. These studies suggest that the dominant policy concern by government is assuring that the regulatory structure does not discriminate against small business. This is particularly important in Indonesia in light of structural reforms associated with the current IMF-led package that will effectively deregulate the domestic economy. This deregulation, unless accompanied by rules that ensure fair trade in domestic markets, may lead to the replacement of public barriers to competition with similar private barriers. Thus, the potential advantages from economic competition will not be realized and small businesses in particular will be disadvantaged.

The objective of the technical assistance is to assist the Ministry of Cooperatives and Small Business Development to address constraints on the flexibility of small businesses and to propose and implement policy solutions to these concerns. The expert will provide the analytical basis for establishing a rule-based approach to supervising competition in domestic markets, with a particular orientation to small and micro-businesses.

Work Plan Activity 1: Together with the DEPKOP Centre for Cooperative Research and Development (CCRD) staff, study the factors hindering the competitiveness of SMEs relative

to larger enterprises, with an emphasis on distortions which hamper SME development, and make recommendations for improving the environment in which SMEs operate with the objective of increasing economic efficiency. A policy memorandum/report will be completed by the end of February 2000, although the activity will also continue further into 2000.

Work Plan Activity 2: Together with Centre for CRD staff, study the factors affecting backward linkages from larger enterprises to SMEs and make recommendations to facilitate these linkages in ways mutually beneficial to both parties. In doing this coordinate with Dr. James Mudge, the PEG International Trade Economist with MOIT, who is analyzing the development of backward linkages and employment effects of non-oil exports, and the Institute for Economic and Social Research (University of Indonesia) and K. Mark Weaver of the University of Alabama who are doing research on strategic alliances between small and medium enterprises. A draft policy memorandum will be completed.

Work Plan Activity 3: Assist Mennegkop with its input into the Tim Koordinasi Pengelolaan Program Daya Saing Industri dan Pengembangan Usaha Kecil dan Menengah (Management Coordination Team for the Industrial Competitiveness and Small and Medium Enterprise Development Program). On March 7, 2000, the State Minister for Cooperatives, SMEs made decision number 21/Kep/MENEG/III/2000 to form a new Kelompok Kerja Pengembangan Usaha Kecil, Menengah dan Koperasi (Task Force for the Development of SMEs and Cooperatives), which is one of the two Task Forces formed under a new Tim Koordinasi Pengelolaan Program Peningkatan Daya Saing Industri dan Pengembangan Usaha Kecil, Menengah dan Koperasi (Management Coordination Team for the Industrial Competitiveness and SME and Cooperatives Development Program). I am assisting Mennegkop with its inputs into this Team and Task Force.

Work Plan Activity 4: Mennegkop is taking the lead in designing, developing, and facilitating schemes for the guarantee of credit to small and medium enterprises and cooperatives which are suitable given Indonesian conditions. These credit guarantee schemes can be implemented by the national Government, such as the present ASKRINDO and PERUM PKK schemes, provincial governments (not yet developed), by private groups such as cooperatives, religious organizations and other non-government organizations, and private enterprises, and by foreign donors such as USAID. This advisor has been asked to assist with these activities. Therefore the related workplan activity is to provide assistance to Mennegkop with these activities as appropriate.

Work Plan Activity 5: In support of increasing the efficient contribution of small and medium enterprises to the Indonesian recovery and development, carry out analysis and provide comments on selected issues in response to requests for support from Mennegkop. This work item is intended to allow the advisor the flexibility to address shorter term, unanticipated tasks that warrant attention in the context of supporting increased efficient contribution of SMEs to Indonesian economic growth.

Work Plan Activity 6: Assist Mennegkop to organize and make preparations for two regional workshops on the new directions of Government policy with the reorganization of the Department of Cooperatives, Small and Medium Enterprises into the Office of the State Minister for Cooperatives, Small and Medium Enterprises and the resultant change from an implementing organization to a policy formulation, coordination, and monitoring organization. The main purposes of the workshops would be the socialization of the new Government

policies as well as to obtain valuable input and feedback from the participants and facilitate the exchange of ideas among them. Likely topics to be discussed in these workshops would be

- (i) The new directions of Government small and medium enterprise policies and approaches and possible responses of local governments to them in general (for example the authority and responsibilities of local governments in relation to the national government) and in some specific policy areas (such as micro and SME finance including the reduction in the number of schemes and the lending and repayment of loans responsibility being turned over to the private sector, business development services, expanding networks of SMEs and SME information accessibility through the use of the internet and other vehicles, and domestic and international trade with an emphasis on the importance of local governments not restricting trade within Indonesia).
- (ii) The experience of SMEs in networking with each other and other enterprises and ways of facilitating it.
- (iii) Possible training needs and programs as follow-up activities.

Work Plan Activity 7: Study the types of non-agricultural products produced by SMEs which are potentially exportable or exported, although not necessarily by the SMEs themselves. Together with Mennegkop, investigate the factors which determine the competitiveness of SMEs in producing non-agricultural exportable goods and services, and hinder them from becoming exporters. Make recommendations about possible ways of facilitating these exports.

Work Plan Activity 8: Together with Mennegkop staff and in cooperation with the Asia Foundation, study the capacities of the BAPPEDA, DEPKOP and other local government agencies at Tingkat I and II to identify SME and cooperative needs (including the need to remove unnecessary constraints on their development) and formulate appropriate policies and actions to facilitate their efficient contribution to economic growth, and make recommendations for improving their capacities to achieve this. If this activity is to be implemented, the strong support of Mennegkop will be required.

(k) Expert on Assistance to Information, Communications and Technology Activities (ICT) including the Ministry of Communications and Information. Advisor: Idris F. Sulaiman (started work July 9, 2001)

Dr. Idris F. Sulaiman is to assist USAID/PEG with policy/event coordination, research, and publicity work as part of the follow up work from the USAID report entitled "Indonesia: ICT Assessment 2001". He is to serve as Advisor to the Indonesian ICT (*Telematika*) Coordinating Team (TKTI). There are plans to form the Indonesian ICT (*Telematika*) Council (*DTI*) to supercede the TKTI and work under the newly formed Ministry of Communications and Information (*Meneg KomInfo*).

Work Plan Activity 1: Coordinator of ICT-related Events: To coordinate, organize and arrange workshops, conferences or other special events on behalf of USAID and implemented by PEG as requested.

Work Plan Activity 2: Development of USAID Indonesia Strategy for ICT Development: Advise and assist the USAID ICT Working Group.

Work Plan Activity 3: Development of Indonesian ICT National Strategy (Guidelines and Action Plan): Advise and assist the Indonesian ICT (*Telematika*) Coordinating Team (TKTI) and the newly created Ministry of Communications and Information in fulfilling its

responsibilities as the GOI's advisory (and monitoring) body for the development and implementation of the ICT Action Plan.

Work Plan Activity 4: Development of Wartels, Warnets and Telecenters in Indonesia: Advise and assist the TTKI in fulfilling its responsibilities as the GOI's body for the development of Wartels, Warnets and Telecenters in Indonesia in ICT and work with the relevant private sector on these issues.

Work Plan Activity 5: Development of TTKI's FDI policy in ICT: Advise and assist the TTKI in fulfilling its responsibilities as the GOI's body for the development of FDI in ICT and coordinate with ICT-related US companies on FDI related issues.

Work Plan Activity 6: Development of MOIT's Policy on Industrial Development through Cluster Efficiency Improvements in Indonesia: Advise and assist with the industrial development of privatization policy and of institutions for the leveraging inter-firm linkages in specific core industry clusters.

Work Plan Activity 7: Ad hoc requests: Respond to short run USAID/PEG, TTKI and MenKomInfo, or other GoI agency requests (preparing speech and other material) as requested.

3.b. Current Buy-Ins: The PEG Project did not authorize or contemplate buy-ins, and there are no delivery orders thereunder outstanding or contemplated.

3.c. Subcontracting Activities During the Year: Nathan Associates Inc., as lead contractor of the Nathan-Checchi Joint Venture, subcontracts with the Boston Institute for Developing Economies (BIDE) and Innovative Resource Partners (IRP) to provide certain long-term and short-term technical assistance to the project. This subcontracting activity is on-going.

4. Performance During the Year: Individual progress reports of the PEG advisors against their respective work plans appear in a separate section of this annual report, as do their Annual Results Matrices as requested by USAID. Below is a summary of the positive effects we think we have had toward achieving the intermediate results (IRs) listed in section 2 above, "Expected Results," first a general summary and then a specific list of accomplishments under each of the six IRs targeted by the activity:

The PEG activity works with several GOI ministries and agencies:

The **National Development Planning Agency (Bappenas)** is responsible for identifying the key policy and budgetary challenges facing the government in the year (and on occasion five years) ahead. Working with the rest of the government this problem identification and the associated macroeconomic framework are presented to Parliament as the umbrella for the budget and policy action plan for the year ahead. PEG's primary job is to assist them in identifying major problems and solutions, both policy and budgetary. In addition, more narrowly and within this umbrella, Bappenas is tasked with oversight of the central government's capital budget strategy. Thus the PEG team at Bappenas has been working across a wide array of areas as the challenges change. Two areas are particularly significant:

1) At the beginning of the PEG activity **fiscal sustainability** was identified as an issue and it has systematically underpinned its work plans.

a) Most recently the team contributed significantly to the development of the **macro-framework** for this year's and next year's budget and this framework was an explicit element of the most recent LoI sent by the GOI to the IMF (point 8). Within the fiscal sustainability envelope PEG has raised and worked on many issues, including taxes, subsidies, expenditure allocations and asset sales and these have been included in budget presentations and discussions. Most recently it has begun to look at the actual and potential risks raised by decentralization.

b) The budget fits into the larger macroeconomic picture with causality running both ways. PEG has been working with Bappenas to identify the **impact of budgetary decisions** on other variables and vice versa. In particular PEG has been working on assessing the factors determining Indonesian **inflation and the exchange rate**. The models developed at Bappenas with PEG assistance underlie the government macro-framework and assist in promoting dialogue on effective policy.

c) Finally PEG has worked extensively with Bappenas staff on the development and presentation of monthly and quarterly **reports on the economy** that are provided to the cabinet. This assists the cabinet by having a readily available comprehensive overview of the economy in the last month.

2) The **real sector of the economy** was also badly damaged in the crisis and the PEG team has been running a parallel work plan that looks at issues involved in improving the business climate to foster a recovery and regain sustained growth.

a) **Investment** -- During the crisis investment contracted severely and all scenarios for Indonesia's recovery depend on improving the investment climate. There has been a lot of work in this area, but most notable has been the contributions to the proposed Investment law and implementing regulations that would move to significantly level the playing field between foreign and domestic investors, including providing "national treatment," and other investor guarantees, reduce ownership restrictions, and streamline investment approval process. Work on related investment issues include: consolidating investment incentives and input into corporate debt restructuring program.

b) **Labor** -- This is most recent area of emphasis. Workers were hurt badly in the crisis as real wages contracted and lay-offs in the formal sector rose. However, government labor policy both pre and post crisis risks slowing formal sector employment growth and damaging the investment climate. Thus issues in labor policy broadly are now critical to reestablishing sustained and sustainable growth. The key issue is searching for strategies that help to reconcile the need for economic growth and hence employment, which are fundamental for improving the welfare of working people and especially the poor, on the one hand, with the mushrooming demands for greater social support and protection of the poor, on the other hand. The GOE is seeking to restore macroeconomic stability and growth as a precondition to a revival in employment growth; it is also seeking to understand some of the potential conflicts between social and economic policy which impact adversely on the poor. The PEG team is helping by working with Bappenas and the Economics Coordinating Ministry to help design policies that are more favorable to investment and growth, and hence employment expansion and poverty alleviation. A continuing impact is reflected in the openness of key officials to these ideas, in major policy documents such as the Bappenas 'White Paper' for

CGI, in key speeches by the Minister of Finance (in particular) and the new research agenda of the Coordinating Minister of Economic Affairs.

Recently PEG work at the **Office of the Coordinating Minister for Economic Affairs and the Ministry of Finance** has focused on four topics: 1) At its request, the PEG team has been helping the GOI address the request from the USG to **freeze terrorist assets** and adopt strong **money laundering legislation**. Through its contacts with key policy makers PEG has successfully energized the economic cabinet members on this issue who are believed to be pressing for the asset freezes. Once this issue was resolved, attention shifted to the money laundering legislation. 2) A second area of activity has been to assist the government in identifying strategies for **financing the budget deficit** and in particular helping the Government to improve its relationships with the IMF and the Paris Club. This has involved helping the GOI to develop its strategy towards those the IMF and the Paris Club for the upcoming years. 3) A third area of activity has involved working with others at USAID to promote **tax administration reform**. There is significant interest in this issue, and PEG is attempting to channel that interest into concrete actions to improve domestic revenue mobilization. 4) The final area of activity has focused on helping the GOI to understand the **economic implications of the terrorist attacks** of the 11th of September and to identify the steps that need to be taken to strengthen the ability of the economy to withstand the deeper slowdown in the world economy that it is now facing.

PEG consultants are working with counterparts in the **Ministry of Industry and Trade (MoIT)**, academia and the private sector to address the following areas:

1) How Indonesia can improve competitiveness of its industries and exports through promotion of **free and open international trade and investment**. Training and collaborative research is undertaken in order to build capacities to identify key issues in international trade and develop sound economic policies in areas such as market access, regional trade arrangements, and in meeting commitments to reduce trade barriers and maintain open market-friendly policies. The PEG team has achieved success in building greater understanding of the importance of open markets and the role of international trade rules and institutions in promoting economic growth and improved living standards for Indonesians.

2) Lowering domestic costs of trade, investment and other economic activities is an important prerequisite for future growth and development. The domestic licensing and regulatory regime remains burdensome particularly for small businesses. Moreover, as Indonesia decentralizes there is growing concern that cash starved local governments will impose burdensome tax and non-tariff barriers on inter-regional trade and other business activities. There is an urgent and continuing need to continue the deregulation process, particularly in the regions and in key sectors traditionally dominated by the public sector, such as ports and shipping. In addition to monitoring, training and policy assistance on such deregulation matters, PEG/MoIT has achieved considerable success in socializing the importance of **free, open and competitive internal markets in the decentralizing era**.

3) The PEG project has been instrumental in aiding the Government to maintain the momentum of **trade policy reforms**, despite political pressures from the economic crisis. Tariffs have been reduced by nearly 50 percent over the past six years and NTBs have nearly been eliminated.

4) Indonesia also continues to be an active participant in the **multilateral trade negotiations**, including ongoing WTO negotiations on agriculture and services, and will be sending full contingents to upcoming APEC and WTO Ministerials. The PEG project is facilitating in this process through training programs and other T.A. (e.g. in the construction of WTO services schedules). Both agriculture and services are key sectors for American business interests in Indonesia.

In the **Ministry of Communications and Information** the PEG Project has been instrumental in getting Indonesia to adopt international best practices for its **telecommunications regulatory framework**. Regulatory reform is still in process, but one result is that the Government decided not to merge two state-owned telecommunication companies into a monopoly. Telecommunications is a key sector for U.S. companies in Indonesia and for Indonesia's future development.

USAID projects in Indonesia have analyzed the underlying causes of the weak performance and provided recommendations to improve the economic foundations of Indonesia's trading system (e.g. improved legal structure, competition policy, broader financial markets for trade finance, etc). These recommendations have helped diffuse pressures for the Government to intervene directly in the market through the provision of subsidized export credits. The PEG activity also drafted an **investigative operations manual for the Indonesian Supervisory Commission for Business Competition (KPPU)**.

In **Bank Indonesia** PEG has been active in two important areas:

1) USAID support for **small business development** is a critical part of its policy both because small business dominates economic growth in Indonesia (accounting for 60% of employment) and because it remains an important avenue of access to economic activity. It also addresses the problems of the very poor, especially in the form of self-employment (although that is not the focus of USAID policy, unlike some other donors). However, experience tells us that effective policies to promote small business are ones that let small businesses function on a level playing field and remove the institutional obstacles that crony capitalism and state dirigisme have put in its way. USAID/Indonesia is doing this by improving the functioning of the regulatory framework, financial services, and to a lesser extent business development service (BDS) institutions with which small business must deal. Regulatory systems are being addressed through de-regulation—one stop licensing, canceling burdensome regulations etc. Financial systems are being improved by regulatory reform—a dead weight set of unfilled lending quotas have been replaced by a policy transparency in lending and technical improvements such as the proposed new credit bureau. Support has been given the expansion of BRI (the country's leading small business bank) and the BPR (2500 small privately owned banks which serve roughly the same number of borrowers as BRI). Studies of their operating systems and environment have enabled everyone to see where improvements can be made. Small lending is being even more effectively forwarded by USAID contributions to a sound prudential regulation that will enable the banks to function again. USAID has joined with GTZ in designing the new Microfinance Institutions Law and the new regulations for BPRs. It has provided the experts to cooperate with the IMF in defining the training and personnel needs of the country to conduct prudential supervision.

2) Indonesia remains in the grip of a financial crisis that has continued almost without interruption since the outbreak of the Asian monetary crisis in mid-1997. The rupiah lost 26% of its value relative to the US dollar last year and during the first four months of this

year the rupiah has lost an additional 17% of its value. Relative to its level four years ago, Indonesia's currency has now lost 80% of its pre-crisis value. This catastrophic depreciation has greatly increased the debt burden of Indonesian businesses, causing most of the banking system's loans to become non-performing and forcing banks to stop lending to private businesses. The depreciation has also pushed inflation up to double-digit levels and threatens to re-ignite the inflation-depreciation spiral experienced in 1998.

The role of **monetary policy** in the financial crisis is poorly understood. Most domestic observers and many international analysts consider the financial crisis to be a result of Indonesia's ongoing political problems, and to have very little to do with monetary policy. However, international agencies continue to encourage Bank Indonesia to strengthen its "tight bias" monetary policy. Whether monetary policy has contributed to the sharp rise in inflation and the weakening of the exchange rate over the past year, or has played a neutral role, is open to interpretation. More importantly, whether a monetary policy response is needed to combat inflation and currency depreciation, or whether a monetary policy response would do more harm than good, is the key policy issue currently facing Bank Indonesia.

PEG advisors working in Bank Indonesia's research department have been helping to find solutions to these critical issues by improving the analytical capacity of the research department in three main areas: macroeconomic modeling, inflation analysis and forecasting, and exchange rate analysis. The advisors work in a hands-on environment with junior and mid-level staff to improve analytical ability. This work is conducted through active involvement with a host of monetary policy issues faced by the staff on a daily basis. The result of this joint effort includes both long-term capacity building and a steady stream of policy recommendations channeled by the research department to the Board of Governors.

Under SO-1:

1) Sound economic policy and institutions

In pursuit of IR-1, Sound Economic Policy and Institutions, PEG advisors have had positive influence in many policy areas. These included i) the overall policy agenda and action plan for the Government of Indonesia's annual budget and fiscal policies, ii) monetary and credit policies, iii) trade, telecommunications and information and communications technology (ICT) policies, iv) investment, industrial development, labor relations and domestic trade policies, and v) consumer protection and poverty reduction.

i) Budget and Fiscal Policies

A key accomplishment of the work at Bappenas has been the mid-term macroeconomic frameworks and policy agendas (the umbrella for the annual budget). The Annual Action Plan (*Repeta*), while a GOI document, nevertheless reflected a great deal of consultant effort on concept, approach, and content. It was an attempt to establish budget and policy priorities within the government, and upon discussion with Parliament more broadly. It emphasized limited resources, the need to improve the policy framework to accomplish government objectives, and the need to clarify the distinction between central and regional government priorities. There will be no rapid, sustainable and equitable economic growth without a solution to the core budget problems (sufficient progress on debt and subsidies while maintaining core spending) that are the legacy of the crisis. The *Repeta* was adopted by Parliament and in July 2001 was explicitly included in the GOI Letter of Intent (LOI) to

the IMF. These exercises highlight the policy agenda required to accelerate recovery and maintain fiscal sustainability. The *Repeta* is the key Indonesian government agenda setting document and promotes ownership of economic reform.

PEG TA to Bappenas also contributed to its macroeconomic projections, especially regarding inflation and the real effective exchange rate, and provided assistance on research programs and the drafting of white papers, largely in the areas of decentralization and macroeconomics. The Third White Paper on “Macroeconomics, Policy Issues and Projections for FY 2003” included special sections on investment, law and employment. These Bappenas specific publications are the source of many of the policy ideas subsequently exposed in formal Indonesian government programs. This one was particularly successful. At a cabinet meeting in early January, it was promoted by the Coordinating Minister for the Economy as an example of the type of research and analysis needed. He requested that every minister and echelon one in the government be given a copy.

This year the PEG team assisted Bappenas develop its own monthly and quarterly economic reports for the cabinet, replacing similar reports to GOI that had been prepared by the PEG advisors. These reports highlight emerging issues and focus the cabinet’s scarce policy resources on critical economic problems as they emerge. Policy briefs and memoranda were prepared on several issues, including 1) fiscal sustainability, 2) Indonesian International Economic Policy in the 21st Century, 3) the impact of the September 11th attacks in the US on the Indonesian economy, 4) the differential impacts of raising taxes and lowering subsidies on poor households, and 5) the potential impact of the proposed Batam free trade law on central government revenues. A research report on fiscal decentralization was completed in the fourth quarter and presented, by Bappenas staff, in the first quarter 2002.

PEG advisors worked with the Ministry of Finance to promote the work of KPMG/Barents advisors on tax reform and provided substantive input on issues related to tax holidays. As promised in an LOI to the IMF, the Ministry of Finance is now moving forward on a number of fronts to reform and improve tax administration. In early 2001 there was a move to impose a tax on financial transactions. PEG advisors were successful in convincing the government that the negative consequences of such a tax significantly outweighed any possible benefit. Further, the government has announced that tax holidays would be minimized, although the issue continues to be debated within government. While no one individual can take all the credit for the positive changes in the policy framework, PEG advisors at Bappenas, MOF and EKUIN contributed to them.

PEG advisors prepared memoranda explaining relationships between the IMF program and Paris Club agreements and the preconditions for deeper Paris Club debt relief. They worked closely with staff of the Ministry of Finance during the negotiations of the July/August 2001 LOI and helped find ways to bridge differences between the IMF and the government on various issues. They also helped the government develop a framework for considering its options with respect to Paris Club debt restructuring.

ii) Monetary Policies

To help maintain macroeconomic stability, PEG advisors supported Bank Indonesia’s (BI) anti-inflation policy with analysis and advice, wrote memoranda in support of BI’s tight monetary policy, and helped the central bank resist pressure to prematurely lower interest rates. In early 2001 there was a significant backlash against BI’s tight monetary policy to

rein in inflation and strengthen the rupiah. Memos prepared by PEG advisors focused attention on reasons other than higher interest rates for the current credit crunch. An improved understanding of inflationary forces and the causes of exchange rate depreciation contributed to sound monetary policy.

PEG made significant inputs into BI's new, market-friendly, small credit promotion policy and its abandonment of lending quotas, as required by the IMF LOI. We worked closely with the U.S. Embassy staff and the Indonesian Government economic team to identify how the Indonesian government could respond to the United Nations request that countries identify and freeze financial assets of known terrorists. We also worked with this same team and the U.S. Treasury representative on efforts to develop a strong money laundering bill.

iii) Trade, Telecommunications and ICT Policies

PEG advisors were instrumental in maintaining the momentum of trade policy reforms, despite political pressures to reverse the process. Tariffs have been reduced by nearly 50 percent over the past six years and most non-tariff import barriers have been eliminated. PEG analyzed the underlying causes of the weak trade performance and provided recommendations to improve the economic foundations of Indonesia's trading system (e.g. improved legal structure, broader financial markets for trade finance, etc). These recommendations have helped diffuse pressures for the Government to intervene directly in the market through the provision of subsidized export credits.

PEG advisors successfully raised awareness of the possible negative effects on Indonesia of new regional trade arrangements, such as the Singapore-Japan Agreement, through a technical report provided to the Ministry of Industry and Trade (MOIT). The findings from this work will enable MOIT to better identify and deal with problems inhibiting competitiveness of Indonesian products and lead to heightened awareness of the necessity of improving institutional capacities in support of open and competitive markets.

PEG advisors analyzed the impact of agricultural and other import barriers, for example preparing a memorandum explaining the negative consequences of placing a high tariff on the import of raw animal hides and another exploring the options for reducing tariffs on capital goods, and they played a pioneering role in examining the interface between decentralization and competition. This has led to fewer protectionist policies, both domestic and international, and ensured that the Ministry focuses on the national interest when approving policies, including some for incorporation in the new domestic trade law. PEG's briefing materials and recommendations on trade policy have been incorporated into Indonesia's trade strategy report. If the report is adopted as official government policy, it will lead to a continuation of trade policy reforms by the Indonesian Government.

Another success has been the positive response of the Minister of Industry and Trade to a PEG technical report on the impact on Indonesian trade of the global slowdown and the 9/11 attacks, particularly non-oil/gas exports in comparison with other East and South-East Asian Countries. This has led to the initiation of a study of the relative competitiveness of Indonesian products in the two largest markets as requested by the Minister.

PEG advisors helped the Coordinating Ministry for the Economy develop its position on industrial and trade policy for use in cabinet discussions and advised the Ministry of Finance

on a number of issues relating to tariff and trade policy, such as the potential impact of the proposed Batam free trade law on central government revenues.

PEG/MOIT advisors prepared a policy memorandum on Pre-Shipment Inspection of Imports and continued to socialize the importance of port and shipping sector reform for improved trade performance—through briefings with the Minister and by providing material for the MOIT's new trade policy effort.

Improving the analytical capacity of the Indonesian government in this area is critical, as vested interests remain keen to promote protectionist agendas. PEG advisors conducted a training course on Key Issues in Domestic and International Trade for 30 MOIT staff to improve their capabilities in trade policy and general economics.

Indonesia continues to be an active participant in multilateral trade institutions, including APEC, AFTA, and in the implementation, notification, and built-in agenda of the Uruguay Round, and PEG advisors encouraged that participation through TA on the services and agricultural negotiations, such as training in the construction of service schedules and other technical advice to ensure conformance with WTO rules and international best practices. PEG review of the WTO Information Technology Agreement helped diffuse trade tensions between the United States and Indonesia. PEG recommendations on safeguard procedures in Indonesia have been adopted and will lead to procedures that are consistent with WTO rules and consistent with international best practices.

In telecommunications, PEG has been instrumental in getting Indonesia to adopt a pro-competition regulatory framework that is based on international best practices. Regulatory reform is still in process, but one result is that the Government has decided not to merge two state-owned telecommunication companies into a monopoly. Telecommunications is also potentially a key sector for U.S. companies in Indonesia and for Indonesia's future development. The Government has decided to adopt many of the price recommendations of the PEG Project. The principle challenge is that the entire price structure for telecommunications should be rebalanced at the same time.

PEG recommendations on a new approach to meeting universal service obligations would lead to greater private sector involvement in providing Indonesia's basic telecommunications needs. The recommendations are now under consideration by the Government and, if adopted, would lead to a more competitive telecommunications environment that relies on the private sector for meeting Indonesia's basic telecommunications needs. PEG (???) recommendations on voice over Internet protocol (VOIP), if finally adopted, will lead to one of the more liberal policy environments for VOIP in the world.

The PEG Project's recommendations on interconnection have been incorporated in the Government's draft decree on interconnection. The decree is now being reviewed by the private sector. It will set the stage for new entrants into the telecommunications market.

The PEG ICT advisor played a major role facilitating the development of the Indonesian Government's ICT National Guidelines and its ICT Action Plan, in collaboration with USAID ANE Bureau, World Bank and JICA. Both documents were adopted by the Government as part of a Presidential Executive Order. The PEG advisor was also instrumental in persuading the government to cancel a new regulation that would have restricted foreign investment in multimedia by imposing a luxury goods tax on ICT products.

As part of efforts to implement the ICT Action Plan, PEG helped organize and facilitate seminars on the better use of existing ICT infrastructure and conferences on trade facilitation, e-business, the use of the Internet and small business development, coordinated a Washington-Jakarta video-conference on telecenter development, and organized the first donor meeting on ICT involving 6 donor organizations (USAID, World Bank, JICA, AusAid, CIDA and GTZ). These activities have involved both public and private sector participants. The PEG advisor helped the government/private sector coordinating committee refine the ICT Action Plan to focus on the implementation of 20 priority programs and completed a comparative evaluation of the Indonesian national strategy in the regional context. He also assisted with the organization of the National Dialog on E-Government organized by IICT/TKTI/MoCI and the Ministry of Science and Technology (Menristek/Ipteknet/BAH) to develop the various phases of "Government Online" services in Indonesia.

The PEG ICT advisor started work on a "Guidebook on Warnet and Telecenter Development in Indonesia," which will include an overview of key issues, useful lessons learned about private sector participation in Community Telecenter (CTC) development and contributions from relevant organizations (telephone and Internet kiosk operator associations). Promotion of CTCs would widen access to the information provided by E-Government services.

The PEG advisor provided input to a major study and a subsequent conference on ICT use by small and medium enterprises (SMEs) sponsored by The Asia Foundation and to an early assessment of a draft SME Action Plan (being developed by the Ministry of Cooperatives and SMEs with support from Asian Development Bank), which contains many activities linked to the National ICT Action Plan. He helped coordinate and provided information to the Indonesian ICT Donor Consultative Group (involving USAID, World Bank, JICA, ADB, CIDA, AusAid and the Swiss Contact) and facilitated the Donor Consultative Group Meeting on ICT (Nov. 9, 2001); where a group of donors discussed their support of ICT development in Indonesia and its ICT Action Plan priorities.

iv) Investment, Industrial Development, Labor Relations and Domestic Trade Policies

The PEG team assisted Bappenas, which is now directly under the President's office and is responsible for developing policy white papers, produce a white paper supporting investment policy analysis and provided both Bappenas and the Investment Coordinating Board materials to strengthen key provisions of the proposed investment law, which merges the domestic (1968) and foreign investment (1967) laws into one, to improve investor confidence. The final draft was circulated in early November 2001. A key success of PEG advice was the insertion of national or equal treatment for foreign investors. Other key provisions include guarantees against nationalization, for fair and prompt compensation, of free access to foreign exchange, and for the right to repatriate capital and profits. The draft also signals a shift away from the requirement that all foreign investment must first be approved to a simple registration of new investments, although there is still some confusion over how to implement this. Still other provisions of the draft law require strengthening to remove some elements of uncertainty in the investment regime. These include 1) clarifying the role of central and local governments in registering/approving foreign investment, and 2) appreciation of the budgetary and economic costs of proposed tax holidays.

The PEG Project's review of the MOIT Industrial Development Strategy will also, hopefully, lead to a more coherent and less interventionist strategy. PEG-MOIT produced a major report on building competitiveness in the Indonesian electronics sector. This report was designed primarily to assist the MOIT develop a new and more appropriate approach to industrial policy. The report was widely distributed and well received and utilized. PEG advisors also helped the Coordinating Ministry for the Economy develop its position on industrial and trade policy for use in cabinet discussions.

The PEG/Bappenas team prepared policy memos on labor policy, including employment and poverty, and helped Bappenas draft a white paper on work programs in the Manpower Directorate, including a review of national labor policies and the industrial relations system. PEG advisors obtained high-level support for the examination of labor policy issues and the development of a comprehensive employment strategy. They completed major surveys and studies on 1) minimum wages rules and their impact on formal sector employment and 2) industrial relations in manufacturing firms and among trade union officials and workers. The key policy implications of the minimum wage study were discussed widely in the media and at major academic and policy seminars and were noted by senior policy makers in Bappenas and other policy advisors like the World Bank, and efforts are underway to devise a new policy framework to guide provincial policy makers. Recommendations for an employment strategy for poverty alleviation were taken up by the Coordinating Minister of Economic Affairs, discussed with the Ministry of Manpower and Bappenas officials and put on the agenda for policy initiatives of the new government.

PEG-MOIT played a leading role in improving GOI awareness of the potential dangers of decentralization on the business climate, in particular local restrictions on the freedom to trade across sub-national boundaries, sponsoring a number of regional seminars and conferences and a series of regional studies and policy papers. PEG/MOIT worked closely with the Ministry to develop the necessary policy and institutional framework to ensure efficient domestic markets in the decentralizing era. The MOIT Director General (DG) for Domestic Trade enthusiastically accepted PEG's offer to support a major conference on Domestic Trade in the Decentralizing Era in April 2001, the proceedings of which were published and widely distributed. The DG Domestic Trade put key recommendations from the conference, particularly those relating to new institutions and policies, in internal memos to the Minister. Much of the material presented at that conference was used as input for a proposed domestic trade law, titled 'Undang Undang Lalu Lintas dan Barang Dalam Negeri' (Law on Domestic Flows of Goods and Services), that seeks to ban all forms of tariff and non-tariff barriers in domestic trade, and the PEG advisor was included in the departmental team that directed the research and drafting effort.

PEG-MOIT continued to play a leading role in monitoring the impact of decentralization upon the business climate at the local level--monitoring local regulations that impede domestic trade and/or worsen the business environment--through field trips and regional studies and also in socializing the importance of free, open and competitive internal markets and local regulations friendly to business and trade through seminars, conferences, etc.

PEG placed an experienced anti-monopoly investigator from the U.S. Federal Trade Commission (FTC) in the Indonesian Commission for the Supervision of Business Competition (KPPU), who provided advice and training on competition policy and drafted an investigative operations manual for the newly formed anti-trust agency. PEG also produced and distributed a report on competition problems in the retail distribution sector, which

provided important input to the debate on whether the Indomaret minimarkets use anticompetitive practices.

Policy reforms of domestic infrastructure are critical to Indonesia's future competitiveness. The PEG project analyzed the benefits from port and shipping reform in Indonesia and raised awareness in the Ministry of Communication and Transportation and MOIT of the need for reform through deregulation and increased private sector participation. Maritime port development is potentially a key sector for U.S. companies in Indonesia and for Indonesia's future development. Various policy distortions and over-regulation of the ports inhibit Indonesia's international and domestic trade performance. The PEG/MOIT report represents an important contribution to the policy debate, as there has been little, if any, donor activity in this area for some time. The report was presented to the DG Sea Communications and his staff at the Ministry of Communications and Transportation. The DG was receptive to the recommendations, had some suggestions for further analysis and was interested in further technical assistance in the area. The Minister of Industry and Trade was also briefed on the findings and recommendations for reform to improve both domestic and international trade performance.

v) Consumer Protection and Poverty Reduction

A PEG/MOIT consultancy at the Directorate for Consumer Protection (CP) provided further impetus to developing the necessary institutional framework for implementing the CP law. An important focus, and success, of this consultancy was emphasizing the need for a more efficient organizational structure within the CP section of MOIT.

PEG advisors supported efforts in the Coordinating Ministry for the Economy to design a participatory process and an approach to developing a poverty reduction strategy that was consistent with domestic reality and the desires of the international community.

2) A conducive legal and regulatory framework

While the main USAID/ECG activity under IR-2, A Conducive Legal and Regulatory Framework, is the ELIPS-II project, PEG advisors have worked closely with them and their host-country counterparts to improve the drafting or implementation of a number of i) new laws and ii) regulatory reforms. Many of these activities have been described above for IR-1 and will only be mentioned briefly here.

i) New Laws

Competition Law: PEG placed an experienced anti-monopoly investigator from the IFC into the Indonesian Commission for the Supervision of Business Competition (KPPU) who provided advice and some training into competition policy and drafted an investigative operations manual for the newly formed anti-trust agency.

Consumer Protection Law: A short-term PEG-MOIT consultancy at the Consumer Protection (CP) Directorate provided further impetus to developing the necessary institutional framework for implementing the CP law.

Investment Law: PEG advisors provided assistance to the Investment Coordinating Board in the drafting of the new Investment Law, as described above.

Domestic Trade Law: PEG-MOIT played a leading role in improving GOI awareness of the potential dangers of decentralization upon the business climate, in particular the freedom to trade across sub-national boundaries, sponsoring a number of regional seminars and conferences and a series of regional studies and policy papers. In April 2001, PEG and MOIT co-sponsored a major national conference on decentralization and domestic trade. Much of the material presented at that conference was later used as input for a new proposed domestic trade law, titled 'Undang Undang Lalu Lintas dan Barang Dalam Negeri' (Law on Domestic Flows of Goods and Services), which seeks to ban all forms of tariff and non-tariff barriers in domestic trade.

Broadcasting Law: PEG's recommendations on Indonesia's draft broadcasting bill are one step towards improved government management of the frequency spectrum. These recommendations, which include the need for an independent regulatory body, have been accepted by the Ministry of Communications, but not yet by Parliament.

Emerging Legal Issues: Labor Law, Minimum Wage Laws, Money Laundering Law, Freezing Terrorist Banking Assets:

As noted above, PEG assisted Bappenas prepare periodic economic reports for the cabinet and White Papers that identify and highlight emerging issues and problems. These have included minimum wage laws, industrial relations and the labor law.

PEG assisted the effort to draft a new Money Laundering Law and worked extensively to help the Government of Indonesia establish the legal basis for identifying and then freezing terrorist assets in the Indonesian banking system. Because of these efforts two separate orders requiring the freezing of terrorist assets were issued in late 2001.

ii) Regulatory Reforms

Telcom Regulations: In telecommunications, PEG was instrumental in getting Indonesia to adopt a pro-competition regulatory framework that is based on international best practices. PEG recommendations on Indonesia's draft broadcasting bill included the need for an independent regulatory body (IRB). As a result of a workshop and other activities sponsored by PEG related to IRB's, the Government set up a task force to develop a road map for establishing an IRB for telecommunications in Indonesia.

ICT Regulations: As noted above, PEG facilitated in the development of ICT National Guidelines and an ICT Action Plan, both of which were adopted by the Government as part of a Presidential Executive Order. PEG was instrumental in persuading the government to cancel a new regulation that would have restricted foreign investment in multimedia in Indonesia by imposing a luxury goods tax on ICT products.

Maritime Port and Shipping Regulations: Over-regulation of maritime ports inhibits Indonesia's international and domestic trade performance. A PEG/MOIT report presented to the DG Sea Communications and his staff at the Ministry of Communications represents an important contribution to the policy debate on this subject.

Regulation of Service Sectors: PEG/MOIT conducted a training program on services negotiations that will lead to more active participation by Indonesia in the services negotiations and potentially to deregulation of several service sectors. After this training program MOIT requested assistance with the collection of services data. PEG developed

preliminary schedules of restrictions on professional business services. These schedules were used by the Government in interagency meetings as models for what needs to be done in other services sectors.

3) Open access to economic opportunity

Some of the work PEG advisors did on IR-1 also contributed to IR-3, Open Access to Economic Opportunity, especially in the fields of i) labor policy and an employment strategy as part of a sound poverty reduction program, ii) deregulating telecommunications and developing ICT and CTCs throughout the country, and iii) improving the efficiency and competitiveness of domestic markets and trade.

i) Labor Policy, Employment and Poverty Reduction

In conjunction with its policy memoranda and assistance with a White Paper for Bappenas, PEG staff obtained high-level support for the examination of labor policy issues and the development of a comprehensive employment strategy. Recommendations on an employment strategy for poverty alleviation were taken up by the Coordinating Minister of Economic Affairs, discussed with the Ministry of Manpower and Bappenas officials and put on the agenda for policy initiatives of the new government. The findings and policy implications of a seminal PEG study on minimum wage laws and their impact on employment in the formal sector were discussed widely in the media and at major academic and policy seminars and were noted by senior policy makers in Bappenas and elsewhere, and efforts were undertaken to devise a new policy framework to guide provincial policy makers in this area.

PEG worked for most of 2001 with the Office of the Coordinating Minister for Economic Affairs to devise a participatory process for the development of a poverty reduction and alleviation program. The government's approach in this area, as well as its initial views on what a poverty strategy should include, were presented at the CGI in November and were well received by the international community.

ii) Telecommunications, ICT and CTCs

PEG efforts to reform TELCOM regulations, establish a TELCOM IRB, make the TELCOM sector more competitive, and liberalize the VOIP policy environment as discussed above, if successful, will provide more open access to communications media throughout the country. The Project's recommendations on interconnection have been incorporated in the Government's draft decree on interconnection and will set the stage for new entrants into the telecommunications market.

PEG work in the ICT area, already summarized above, including the development of Community Telecenters (CTCs), the promotion of SME use of ICT, E-business and E-Government facilities, will greatly enhance the public's access to information, education, government services and business opportunities.

iii) Domestic Markets and Trade

PEG/MOIT continues to work closely with the Ministry to develop the necessary policy and institutional framework to ensure efficient domestic markets in the decentralizing era, as

discussed above. It has analyzed the tremendous benefits from port and shipping reform in Indonesia and pressed for deregulation and increased private sector participation.

PEG/MOIT also produced a major report on building competitiveness in the Indonesian electronics sector. This report was designed primarily to assist the MOIT develop a new and more appropriate approach to industrial policy. The report was widely distributed and well received and utilized. PEG advisors also worked with the West Java office of MOIT (DINAS INDAG) to organize and coordinate a successful JEA Austin socialization program on competitiveness in Bandung.

PEG training and technical assistance on WTO services negotiations are expected to lead to deregulation of several service sectors and more open access to this rapidly growing part of the economy. For example, PEG has developed preliminary schedules of restrictions on professional business services. These schedules were used by the Government in interagency meetings as models for what needs to be done in other services sectors.

4) Knowledgeable public participation in economic decision-making

PEG workshops and seminars are used to disseminate the analytical results of our surveys and studies to interested members of the public, and we encourage local press coverage of these events. PEG advisors have helped Bappenas prepare the Annual Action Plan (Repeta) for Parliamentary debate and approval, thus involving public representatives in decisions affecting some of the most important aspects of the Government's macroeconomic policy framework and policy priorities. PEG advisors also helped the Ministry of Finance and Bank Indonesia with detailed reports to Parliament that were subsequently made public and increased the transparency and understanding of monetary management.

PEG support to ICT development in Indonesia, especially community telecenters, SME use, and e-government, are aimed at providing more timely and relevant information to the public, which will enable more informed public participation in decision-making.

PEG support for the establishment of independent regulatory bodies (IRBs) will hopefully lead to the enforcement of regulations that protect the public interest.

Under SO-14:

5) Financial sector restructured and governance improved

In the financial sector, PEG advisors made significant contributions in i) microfinance and SME lending policies, ii) monetary policies, and iii) bank supervision. They also provided technical advice in support of BI's Transformation Project, to adjust it to its more limited roles.

i) Microfinance and SME Lending

PEG made significant inputs into Bank Indonesia's adoption of a new market friendly small credit promotion policy and abandonment of lending quotas as required by the IMF LOI. Implementation is underway.

PEG advisors promoted the issuance of a Ministerial Decree by the State Ministry for Cooperatives and Small Enterprise that sets up (on a consensus basis with the other parties) an inter-ministerial working group with a clear mandate to design a credit reference bureau, like Dun and Bradstreet, and resolve the outstanding issues connected with that bureau. The formation of this working group, and the ultimate creation of a credit reference bureau, will strengthen commercial bank SME lending capacity.

PEG advisors promoted the external auditing of micro-finance institutions, marked by the launching of a contest for collecting audit experience and the launching of a program (by Asia Foundation) to restructure West Java micro-finance institutions. PEG supported the development of a best practices experience base of rural bank (BPR) systems and procedures and external audits to reformulate guidelines and training on a more practical basis. The formation of a working group on external audit of rural banks will lead to their institutional strengthening.

PEG presented papers in Indonesian at a seminar on “Credit Schemes for Cooperatives and SMEs” that provided information on the possible benefits and costs of credit guarantee schemes, possible roles for the private sector, and some experiences from other countries.

PEG conducted a Training Needs Assessment (TNA) for SME credit officers at Bank Indonesia and assisted with the implementation of that TNA.

PEG provided assistance to the Small and Medium Enterprise and Cooperatives Development Agency (SMECDA) in developing a market-oriented approach to SME lending. A PEG consultancy on business services was well received. Training was provided on finance. A joint seminar was held with the telephone company and national libraries to secure cooperative approach and joint agreements were signed.

The development and socialization of a new approach to promoting SME lending by Bank Indonesia was embodied in new banking regulations based on an empirical “Study of Commercial Bank Operating Procedures” presented to Board of Governors by the PEG adviser. Seminars were held in a large number of major centers. The approach is characterized by assisting banks to make SME a profitable, strategic focus, and the seminars clarify the new policy and describe various tools the banks can use for SME lending.

In cooperation with GTZ, PEG supported reforms in Rural Banks (BPR) and non-bank microfinance regulations and helped draft a Microfinance Institution Law. These are designed to strengthen and make the regulatory network for rural banks more effective. Licensing procedures for new rural banks were put in place and socialized. Work was begun on a regulatory framework for village financial institutions.

The PEG advisor conducted a review of Small Enterprise Laws and worked with the Ministry on revising Small Business and Subcontracting Laws in market friendly direction.

PEG helped develop training materials in turnaround management for microfinance institutions. Teaching cases were developed by Institut Bankir Indonesia. A policy on information systems for BPR was adopted.

ii) Monetary Policy

To help maintain macroeconomic stability, PEG advisors supported Bank Indonesia's anti-inflation policy with analysis and advice, helping the central bank to resist pressure to prematurely lower interest rates.

PEG promoted increased financial market flexibility. Caps on bank savings deposit interest rates were raised several times, allowing banks greater freedom in setting their deposit rates and increasing the effectiveness of the central bank's monetary policy. Higher deposit rates contributed to exchange rate stability.

PEG spearheaded the development of an internationally accepted monetary policy model, the General Equilibrium Model for Bank Indonesia (GEMBI), which represents a state of the art method for policy evaluation in a dynamic open economy. The BI research staff is now using this model for "on-line" economic policy design and evaluation.

iii) Bank Supervision

In cooperation with the IMF a report was completed on the Human Resource and Training Needs for Bank Supervision. It is now under consideration by the BI Board of Governors.

6) Public sector policy and governance improved

The PEG paper "Factors Affecting the Competitiveness of Small and Medium Enterprises" presents information that local government officials can use to identify factors hindering the competitiveness of small and medium enterprises in their regions.

Some senior Mennekgop officials found the PEG paper "Recommendations for Actions to Improve Small and Medium Enterprise Policies as a Follow-up to the National Workshop of SE Development Held on December 8 and 9, 1999" to be particularly useful.

The PEG paper "Small Enterprises as an Essential Part of the Indonesian Development Strategy" lays out an export-oriented strategy suitable for Indonesia based on both agribusiness and labor-intensive industries and describes the important contributions SMEs can make to Indonesian development.

PEG advisors assisted Mennekgop staff in analyzing the possible adverse effects of the Law No. 8, 1999, on Consumer Protection, for small and medium enterprises. These staffers were providing assistance to groups of SMEs who were worried about such adverse effects.

5. Statement of Work: As noted above in 3.a., two long-term advisors left the project during the reporting period and 3 were added, with consequent changes in the contract SOW. These are presented in subsection 3.a. There are no other changes to report.

PEG – TA TEAM
ANNUAL RESULTS MATRIX

Progress & Achievements Against Workplan during Reporting Period

Ma-2

Status of Activities and Deliverables in Agreed-Upon Annual Workplan dated January 1, 2001 – December 31, 2001				
ADVISOR	COUNTERPART	ACTIVITY	DELIVERABLE	STATUS
			Mainstreaming poverty issues	On target , this is an ongoing activity where we are working to improve the ability of government staff to consider the impact of all policies on poverty.
		Respond to requests from the Office of the Coordinating Minister for Economic Affairs as required.	<p>Various memoranda in support of the Office of the Coordinating Minister for Economic Affairs</p> <p>Support for the government's effort to expand its dialog with the donor community on issues relating to economic affairs.</p> <p>Support on trade issues for the Ministry of Finance.</p>	<p>On target, this is an ongoing activity. Have prepared memoranda on a wide range of subjects.</p> <p>On target, this is an ongoing activity. Have assisted in the preparation of materials for presentation to foreign audiences regarding government policies.</p> <p>On target, this is an ongoing activity in response to requests from the Minister of Finance. This has involved a range of PEG consultants on issues such as Batam Island, effectiveness of EPZs, tariff policy, pre-shipment inspection, and anti-dumping.</p>

PEG Project Annual Results Matrix

Progress & Achievements Against Workplan during Reporting Period

Status of Activities and Deliverables in Agreed-Upon Annual Workplan for January 1, 2001 –December 31, 2001				
ADVISOR	COUNTERPART	ACTIVITY	DELIVERABLE	STATUS
Bird	Bappenas	Policy Direction	Memos as input into the drafting of the investment law. Initiate research with SMERU on the effects of minimum wages on modern and informal sector employment (with the labor policy expert).	Complete: several memos and reviews of the various drafts of the investment law and some implementing decrees and negative investment list. Completed report on minimum wages
		Institutional capacity building	Assist in directing policy research efforts (macro) with Bill Wallace; employment with Chris Manning), continued work on monthly and annual white papers, monetary reports to cabinet; assist staff in macro forecasting as part of the budgetary and Repeta processes.	Macro white paper complete. Employment white paper ongoing. Monthly monetary reports well established. Forecasting ongoing work.
		Policy Analysis for Crisis Support	Policy memos and presentations on specific crisis topics as requested.	Complete: Numerous memos, presentations, inputs to Bappenas and GOI policy
Wallace	Bappenas	Policy Direction	Repeta	Completed: Repeta completed—in theory should reflect Cabinet position but still largely Bappenas. Good focus on fiscal sustainability – picked up by IMF for LOI. Incomplete: still insufficient focus on national priorities, and link of these to programs – poverty for example

Status of Activities and Deliverables in Agreed-Upon Annual Workplan for January 1, 2001 –December 31, 2001				
		Institutional capacity building	Directorate R&D efforts, continued work on monthly and quarterly annual whitepapers, macro reports to cabinet	Complete: Annual (attached to White-paper), monthly – reasonably well established Incomplete: Quarterly, although two done, still not institutionally established, consolidated regional accounts, still incomplete, although trial with limited data done
		Policy Analysis for Crisis Support	Policy memos and presentations on specific crisis topics as requested.	Complete: Numerous memos, presentations, inputs to Bappenas and GOI policy stance.
Manning	Bappenas	Overall leadership of technical assistance on labor policy at the Bappenas culminating in a White Paper on this subject.	Memos for Bappenas on various aspects of labor policy, especially minimum wages, for a White Paper. Briefs on employment and poverty alleviation for the Economics Coordinating Minister and Bappenas (Propeta).	On-going
		A review of the current employment relations and dispute resolution laws	Initiation of research on industrial relations laws and practices in the private sector together with SMERU	Research report to be revised 2002; short-term consultant visits planned as follow-up
		Assistance to the PEG subcontractor SMERU for materials to help district governments on labor policy	Development of a simple manual on minimum wage setting, designed in comic-format, for provincial and district governments	Technical aspects completed, final publication in-process
		Improvements to the labor monitoring database and monthly reports at Bappenas	Technical support to the staff of the Directorate of Manpower on several indicators of quarterly and annual change.	On-going
		Capacity building activities with PEG grantee IRIS	Planning of workshops on regional development and fiscal policy for February- July 2002. Technical advice to IRIS on regional university programs and aspects of labor policy to be debated at the parliament	On-going

PEG Project Annual Results Matrix

Progress & Achievements Against Workplan during Reporting Period

Status of Activities and Deliverables in Annual Workplan for 2001				
ADVISOR	COUNTERPART	ACTIVITY	DELIVERABLE	STATUS
Magiera	MOIT	Tariff Policy Reform	Updated trade policy database Policy memorandum on trade policy issues as requested.	<ul style="list-style-type: none"> • Completed regular updates and expanded the database to include AFT and the Information Technology Agreement. • Provided briefings on Indonesia's trade policies, their impact on trade, and policies to expand exports.
	MOIT	Support in Trade Negotiations	Provide technical assistance and training on multilateral trade negotiations, including the WTO built-in agenda.	<ul style="list-style-type: none"> • Provided government-wide training on the WTO service negotiations and held seminars tailored to the needs of individual government ministries. • Prepared reports on the agriculture/services negotiations. • Prepared reports on barriers to trade and investment in education and professional business services for Indonesia's service negotiation schedule. • Provided recommendations on international best practices for Indonesia's draft safeguard regulations.
	MOIT	APEC Action Plan	Provide input on Indonesia's APEC action plan.	<ul style="list-style-type: none"> • Analyzed Indonesia's tariff structure for Indonesia's APEC Action Plan and the Shanghai Leaders' Meeting.
	MOIT	Enhancing Service Industry Competitiveness	Complete studies on regulatory reforms and competitiveness issues in the services sector.	<ul style="list-style-type: none"> • A study on Internet service providers was completed under the CSIS grant. • See also activities above on WTO services negotiations.
	MOIT	Short-Run Staff Requests	Respond to short run staff requests and prepare speeches as requested.	<ul style="list-style-type: none"> • Prepared remarks and speeches for the Columbo Plan, the Shanghai Leader's meeting, and G15 Ministerial.
	Ministry of Communications and Transport	Telecommunications Regulatory Reform	Develop a modern telecommunications regulatory system and assist in the implementation of Indonesia's Telecommunications Law.	<ul style="list-style-type: none"> • Organized several training workshops on telecom regulatory issues, including a USAID sponsored workshop for the Asian region. • Provided recommendations on a private sector mechanism for meeting universal service obligations, technology neutral policies for voice over Internet, Indonesia's Broadcasting Law, and a coordinated approach to pricing issues.

PEG Project Annual Results Matrix

Progress & Achievements Against Work Plan during Reporting Period

Status of Activities and Deliverables in Agreed-Upon Annual Work Plan for January 1, 2001 – December 31, 2001				
ADVISOR	COUNTERPART	ACTIVITY	DELIVERABLE	STATUS
Ray	MOIT	Competition, Deregulation and Consumer Protection	Policy memos and papers in support of legislation and institutions to ensure fair trade & competition. Training seminar on competition & trade.	Completed: a) Numerous memos and papers drafted and distributed throughout MoIT. Various policy papers were produced and later developed into the Domestic Trade component of the MoIT's trade policy strategy statement b) 8 half-day training workshops held for MoIT on key aspects in domestic and international trade (with Ted James)
		Distribution Systems	One policy study (or equivalent) plus short memos on issues and problems in distribution systems	Completed: a) Major study completed on competition problems in the distribution system. b) Review of MoIT distribution monitoring capabilities – various memos drafted and produced c) Training to raise MoIT's technical skills in monitoring food distribution (i.e. processing and manipulating commodity data)
		Decentralization and Domestic Trade	One or more regional studies / policy memos on trade barriers at the regional level One major conference and regional socialization seminars	Completed: a) Fieldwork and regional reports completed for the following provinces: North Sulawesi, North Sumatra, Central Java, amongst others. Numerous memos drafted and distributed. Various socialization seminars in Jakarta and the regions b) Organized major national conference on the issue of Domestic Trade in the Decentralizing Era c) Assistance to MoIT in the form of memo/policy papers and briefing sessions on the development of appropriate legislation and institutions to ensure free internal trade in the decentralizing era.
		Transport Policy and Domestic Trade	One or more policy studies/ memorandums Policy briefing sessions and training workshops	Completed: a) Major study completed on the reforming the shipping and ports sector. Report widely distributed in English and Indonesian b) Results of this study were socialized in various forums at the Ministry of Communications and the Ministry of Industry and Trade (including a briefing session for the Minister of Industry and Trade)

Status of Activities and Deliverables in Agreed-Upon Annual Work Plan for January 1, 2001 – December 31, 2001				
		Industrial Competitiveness	<p>Papers and memos as input to the development of a new industry policy vision at MOIT.</p> <p>Support to the Indonesian component of USAID Asian competitiveness study, if USAID approves.</p>	<p>Completed</p> <p>a) Numerous papers and memos for the Minister and Head of the R&D Agency.</p> <p>b) Major study on competitiveness in the electronics industry completed and distributed.</p> <p>c) Organized JAAustin program on competitiveness in Bandung West Java.</p>

PEG Project Annual Results Matrix

Progress & Achievements Against Workplan during Reporting Period

(Note that the Report of the PEG Advisor on Macroeconomic Aspects of International Trade is for August-December 2001 only).

Status of Activities and Deliverables in Annual Workplan for 2001				
ADVISOR	COUNTERPART	ACTIVITY	DELIVERABLE	STATUS
William E. James	MOIT	Analysis of Non-Oil Export Performance	Provide analysis of impact of global economic slowdown on Indonesian non-oil export performance in the form of a technical report	The report was prepared and was subsequently updated. The minister expressed her appreciation for the report and requested follow-up activity to evaluate performance in major markets of key Indonesian products.
		Provide Institutional Support for Market-Friendly Policies	Organize and Conduct Training Workshops on Key Policy Issues in International Trade (with David Ray);	Training workshop on Key Issues in Domestic and International Trade was held. Eight sessions (20-30 participants from MOIT). Provided 4 lectures and sets of lecture notes on 4 key issues in international trade.
		Regional Trading Arrangements: Implications for Indonesia	Prepare technical report analyzing the potential impact of new PTAs on Indonesia's trade	Technical Report on the New Regionalism in East Asia was completed and distributed to the Minister and key staff at MOIT
	MOIT/MOF	Assist in assessing problems in customs administration and suggest reforms	Provide a technical report/memo on pre-shipment inspection services	Technical report was completed and distributed to the Minister. Follow-up was requested by Minister of Finance
	BI	Work with BI officials and US embassy staff on issues involved in freeze of assets of groups involved in terrorism and money laundering issues	Arranged meeting between Governor of BI and his key staff with US Treasury Dept. official and US Embassy staff	Meeting was successful. BI issued circular to banks on asset freeze. Held several meetings and discussions with Senior Deputy Governor to follow up this work.

PEG Project Annual Results Matrix

Progress & Achievements Against Workplan during Reporting Period, January 1 – June 30, 2001

Status of Activities and Deliverables in Annual Workplan for 2001				
ADVISOR	COUNTERPART	ACTIVITY	DELIVERABLE	STATUS
Rosner	Bank Indonesia	Development of short term forecasting models for quarterly GDP	Analysis of the possible impact of a global economic slowdown on Indonesian non-oil exports.	Complete: The research department is currently using a short-term quarterly macroeconomic model.
		Exchange Rates and Inflation	Inflation scenarios for 2001 Analysis of BI's annual inflation target Analysis of the source of growth of base money in 2000.	Complete: Several memos and short working papers on these topics were delivered during the first half of 2001.
		Research on Equilibrium Exchange Rate	Analysis of exchange rate volatility before and after PBI 3/3/2001 Analysis of intervention and interest rates	Complete: A three-way analysis of the real exchange rate in terms of tradables, non-tradables and administered prices was incorporated into the research department's monthly report to the board of governors, including the role of interest rates.
		Crisis Support	Short notes on a range of topics, direct support to staff, meetings with key individuals in the research department, and editorial assistance	Complete: Assisted BI research and analysis staff deliver numerous memos during the first half of 2001 on a broad range of macroeconomic issues.

PEG Project Annual Results Matrix: Reporting Period January 1 to December 31, 2001

Progress & Achievements Against Workplan during Reporting Period

Status of Activities and Deliverables in Agreed-Upon Annual Workplan dated January 1, 2001 – December 31, 2001				
Advisor	Counterpart	Workplan Activity	Related Deliverable(s)	Status and Comments
T. Timberg	Bank of Indonesia (BI)	1. Response to crisis related requests for policy analysis on SMEs and alternative financial institutions, including review of credit policies towards SMEs and recommended changes.	Policy Memos on Non Bank (Microfinance Institutions) MFI, external finance for MFI, small banks, loan and deposit guarantees, and Credit Reference Bureau.	Completed.
		Surveys of financial institutions and SMEs to verify and correct available data, and subsequent analysis of survey findings vis-à-vis other donors and agencies.	Surveys and accompanying reports and memos including on Regional Small Credit Profiles.	Completed
		Analysis of issues surrounding resumption of small scale lending in the absence of regulatory requirements from BI.	Three Socialization Seminars for New Market Friendly Role of Bank Indonesia in SME Promotion.	Completed
		Improvement of Systems and Procedures, Information Systems, and Turnaround Management for BPR (Rural Banks).	Studies and seminars on noted topics, policy changes appropriately made..	Completed
		National dialogue on approach to SME development and finance, including guarantees and Credit Bureau.	Work with All Government Working Group and participants to establish consensus position.	Completed
		Analysis of current condition of AFI (Alternative Finance Institutions) and SME in Indonesia.	Memos of review of networking between commercial banks and AFIs, proposed SME initiatives including Islamic Banking etc.	On target

Status of Activities and Deliverables in Agreed-Upon Annual Workplan dated January 1, 2001 – December 31, 2001				
Advisor	Counterpart	Workplan Activity	Related Deliverable(s)	Status and Comments
		Support for new regulatory framework for MFI.	Participation in various working groups and task forces.	Ongoing.
T. Timberg	Bank of Indonesia	3. Support for technical capacity of staff of the DKr credit bureau of BI.	Training for senior employees and Course on SME Finance Research, second seminar replaced by second SME Finance Research course in 2002.	Completed and Policy Changed
		Support for technical capacity of BI staff involved in rural banking (BPR).	Seminar on Standards for New Bank Licensing.	Completed
		Support for policy for HRD for bank supervision.	Study done, recommendations partly implemented.	Done
T. Timberg	MennegKop (State Ministry for SME and Cooperatives)	4. Support for revision of SME Law.	Study and National Seminar conducted. Legislative Drafting Training by ELIPS facilitated.	Done
		Support for development of supervision policy for Savings and Loan Cooperatives.	Study in Process, most drafts complete.	In Process.
		Support for Training Needs Assessment (TNA) for Local Level former MennegKop Offices..	Study and Seminar completed, only final report is still due.	Largely Complete.
		Study on Partnership	Study near end. Seminar still to be held.	In Process
		Training for MennegKop Staff	High Level Staff received overseas training.	Done
		Support for formulation of policy on Business Development Services (BDS).	Study and submitted.	Done

PEG Project Annual Results Matrix

Progress & Achievements against Workplan during Reporting Period, July 9 to December 31, 2001

Status of Activities and Deliverables in Agreed-Upon Annual Workplan for July 9, 2001 – December 31, 2001				
ADVISOR	COUNTERPART	ACTIVITY	DELIVERABLE	STATUS
Idris Sulaiman	Inter-ministerial Indonesian ICT/ <i>Telematika</i> Coordinating Team (IICT/ <i>TKT</i>), Formerly under State Ministry of Administrative Reform (<i>MenegPAN</i>), now State Ministry of Communication and Information (<i>Meneg Kominfo</i>)	To organize and arrange workshops, conferences or other special events on behalf of USAID and PEG designed to build consensus among key donors, Government of Indonesia (GOI) officials and private sector individuals (both local and US) on promoting the development of information and communication technologies (ICT) in Indonesia.	National ICT Guideline and Strategy Policy Statement, policy memos and papers in support of ICT diffusion and bridging of digital divide	Completed: a) National policy strategy statement – ICT National Guidelines and National ICT Action Plan – both of which have been adopted as part of the Presidential Instructions (<i>Inpres</i>) No. 6/ April 2001 b) Various reports, presentation paper and policy notes were produced which document policy issues and events
		Advise and assist <i>USAID ICT Working and Donor Groups</i> on development of strategy for ICT development in Indonesia.	Briefing paper on ICT issues and strategy for the USAID ICT Working Group	Completed: a) Briefing memorandums b) Presented papers that review USAID ICT Program and the Indonesian ICT Action Plan in seminars in Jakarta, Singapore, and Tokyo.

Status of Activities and Deliverables in Agreed-Upon Annual Workplan for July 9, 2001 – December 31, 2001				
		Advise and assist the IICT in fulfilling its responsibilities in for the implementation of the ICT Action- Plan: (a) the development of Telecenters	Briefing paper on the development of telecenters in Indonesia	<p>Completed:</p> <ul style="list-style-type: none"> a) A major briefing paper on telecenter issues b) Organized the First National Video-Conference on Telecenters with World Bank/USAID, Washington DC in collaboration with World Bank, Jakarta c) Major report on the video-conference on sustainable models for telecenters development and the role of the Indonesian private sector and edited a number of papers that were presented at (b) above d) A memo as a discussant on the Thai-Canadian Telecenter Project seminar sponsored by CIDA e) Provided papers and briefing sessions on the development of telecenters to MCI staff and other IICT members as well as USAID-ECG "West Java" and "Open Access" Focus Groups <p>Developed and maintained a section of the PEG website <www.pegasus.or.id> which provides information on the development of telecenters as well as ICT developments in Indonesia.</p>
		(b) Development of IICT's policy and coordinate activities which aim to attract foreign investment in ICT and coordinate with US and US-based companies on related issues.	One or more policy studies, memorandums and policy briefing sessions	<p>Completed:</p> <ul style="list-style-type: none"> (a) Provided a policy note on the attractiveness of Indonesian IT for FDI, which reviews opportunities and challenges facing the Indonesian IT industries. (b) Provided papers and briefing sessions on the development of appropriate legislation and institutions (in particular an independent regulatory board on communications, i.e. telecommunication and broadcasting) (c) Attended several AmCham meetings

Status of Activities and Deliverables in Agreed-Upon Annual Workplan for July 9, 2001 – December 31, 2001				
		(c) Development of ICT use by SMEs	Papers and memos as input to the development of ICT use by SMEs and support to the Indonesian component of Asia Pacific Trade Facilitation and E-Business (AFACT)	<p>Completed:</p> <ul style="list-style-type: none"> a) Several memos for "Open Access" Focus Group meetings, facilitated TAF/CastleAsia SME seminar b) Briefing notes for joint-meetings with the ADB SME TA Management group (Ministry of Cooperatives and SMEs) and with SME team Swiss Contact
		Development of policy on software and ICT industrial cluster and privatization and competitiveness of local firms	Papers and memos as input to the development software and industrial cluster, privatization and competitiveness of ICT electronics (PT INTI and PT LEN) in Bandung study, if USAID approves.	<p>Completed:</p> <ul style="list-style-type: none"> a) Co-organized JA Austin program on competitiveness in Bandung West Java with a particular emphasis on the ICT electronics industries b) Short memorandum on the study of technology diffusion in the Indonesian electronics industry c) Coordinated meetings with CyberCity Indonesia, Bandung HighTech Valley and Balicamp groups.

PEG – TA TEAM
INDIVIDUAL ANNUAL PROGRESS REPORTS

Partnership for Economic Growth (PEG)

Individual Annual Progress Report

*Dr. Timothy S. Buehrer,
PEG Macroeconomic Advisor
Office of the Coordinating Minister for Economic Affairs/
Ministry of Finance*

Reporting Period: 2001

2001 was a year of significant transition for my position in the project. As the year began, I shifted to working primarily with the Office of the Coordinating Minister for Economic Affairs and to a lesser extent with Bappenas. However, a cabinet reshuffle in June and then the elevation of Megawati Sukarnoputri to the presidency and the appointment of her new cabinet in July and August caused my counterparts to shift positions in government and, as a consequence, my activities changed again. One of the most significant changes was that my office was physically moved from Bappenas to the offices of the Ministry of Finance where the Coordinating Ministry is now located. That move has put me in closer contact with various officials of the Ministry of Finance, including the Finance Minister, and expanded the scope of government officials who make requests for assistance.

The text below highlights some of the key issues that I worked on over the past year.

Workplan Activity 1: Identify and analyze key macroeconomic policies affecting the recovery of the Indonesian economy and the impact of the recovery on the poor.

Accomplishments:

This was the most active area of work for me in 2001. Throughout the year, I worked closely with the staff of the Coordinating Minister's Office on developing a participatory approach to developing a regionally differentiated poverty reduction strategy. As a starting point for discussions on the strategy, we proposed that employment and empowerment be the key focus areas for the effort. With able assistance from PEG consultant Prof. Gus Papanek, we were able to produce a working paper on this topic that was intended to become the scope of work for the poverty coordinating agency that was to be established under the Gus Dur government. Unfortunately, that coordinating agency was not fully formed by the time that Megawati came to power and so the issue languished for a while. However, in cooperation with the staff of the Coordinating Minister's Office, I was able to modify the previous work to focus even more on employment creation and have it adopted by the new government. The policy was enunciated as the government's approach for developing a poverty alleviation strategy at the November meeting of the CGI.

Another key area of work last year was fiscal policy, and in particular support for policies to address what was a widening gap in the implementation of the 2001 budget. In cooperation with the PEG staff at Bappenas, I was successful in working with staff from both Bappenas and the Coordinating Minister's Office in supporting the government's various programs to contain the deficit.

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At the same time, I worked on debt management issues relating to both the Paris Club and the management of domestic debt.¹ Debt management will contribute significantly to maintaining fiscal sustainability over the next few years. Thus it is important for the government to have a better understanding of its options in this regard. Therefore I spent a significant amount of time helping the staff of the Ministry of Finance and the Coordinating Minister's Office to better understand the government's policy options in managing both its domestic and foreign debt. A significant focus has been the accounting of BLBI support between the Ministry of Finance and Bank Indonesia. This is now a key issue with the IMF.

Finally, at the end of the year I spent a significant amount of time on issues relating to the freezing of terrorist assets and promoting the development and passage of anti-money laundering legislation. By working closely with the government, other USAID ECG resident advisors, and staff at the US Embassy, I was able to assist the Indonesian government in developing its positive response to the world-wide effort to curtail terrorist financing.

Ongoing Activity:

Fiscal sustainability remains a significant issue for the government and I expect to continue my work in this area. Debt management, particularly as it relates to the BLBI debt at Bank Indonesia is coming to the fore as an issue and will require significant work in 2002. Our poverty work is likely to be reduced in 2002 as the new cabinet has a Coordinating Minister for People's Welfare who is taking over most responsibility in this area.

Workplan Activity 2: *Improve the capability of the Office of the Coordinating Minister to track the performance of the Indonesian economy and anticipate policy issues*

Accomplishments:

During 2001 I continued to refine the monthly report that I had been preparing since joining this project in mid-2000. In response to comments from Coordinating Minister's Office, I endeavored to make it shorter and more concise which made the report more accessible to a wider audience. I was not as successful as I would have liked in transferring this function to the Ministry as the staff at the Coordinating Minister's Office do not have the time to produce such a report on a regular basis. However, the report has acted a good tool for helping to improve the ability of the staff to analyze macroeconomic issues.

Much of the work that I have been doing on debt issues, that I discussed above, has been with key staff members of the Ministry of Finance and the Coordinating Minister's Office. Through these efforts, their knowledge and capability in addressing debt management issues has been improved. Also, through my efforts with Prof. Papanek, we have assisted one of the staff members in the Coordinating

¹ This activity has been done in coordination with the US Treasury support on debt management.

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Minister's Office in becoming well versed on poverty issues, particularly as they relate to establishing procedures for developing a poverty policy strategy. He has gone on to participate as a speaker in a number of regional conferences this issue.

Another area of work under this activity related to the impact of the September 11th attacks and their aftermath on the Indonesian economy. I was asked to assist in a number of efforts by the government to assess the impact of these events.

Ongoing Activity:

Capacity building remains a significant issue within the government. For the most part, my focus is more on on-the-job training than more formal training modalities. I would expect that this focus would continue into the future.

Workplan Activity 3: *Respond to requests from the Office of the Coordinating Minister for Economic Affairs as required.*

Accomplishments:

Under this activity, I assisted the Coordinating Minister's Office and the Ministry of Finance in a wide range of areas. One particular focus was assisting them in preparations for negotiations with the IMF, particularly during the first half of the year. Another area of focus has been in assisting with communications with donor countries, investors, and multilateral organizations.

Late in the year I began to field more requests on trade issues from the Ministry of Finance. This evolved into a rather extensive work program for a range of PEG advisors on issues relating to EPZs, Batam, pre-shipment inspection, and anti-dumping to name a few areas.

Ongoing Activity:

There are always additional requests from our clients for support on a range of issues and these will continue into 2002. The work on trade issues for the Ministry of Finance will particularly important and will involve a number of people throughout PEG.

Partnership for Economic Growth (PEG)

Individual Annual Progress Report

Dr. Kelly Bird, Economic Advisor Bappenas

Reporting Period: 2001

Introduction

This year saw the culmination of three years of PEG activities at Bappenas. Since January 1999 the consultant's primary task has been to improve economic analysis and policy proposals in the the National Development Plan (Propenas) and the annual policy action plans (Repeta). The priorities and action plans developed are necessarily extensive and the advisor (and others on the team at PEG/Bappenas) assist Bappenas staff in assessing and analyzing policy across a broad set of areas. This also necessarily involves working with and coordinating Bappenas staff research and model development, short-term consultants under PEG for the planning agency, other PEG/Bappenas advisors, other consultants under PEG and ECG, and other multilateral and bilateral advisor efforts. While there remains room for improvement, these new development programs represent a conceptual breakthrough. They are more focused on national priority issues and better identify and attempt to better separate central government obligations and priorities from regional ones while empowering the regions and sectors to go forward with their own efforts. Finally they are typically being developed with more input from stakeholders and better coordination within the government. Finally, these programs generally reflect a better understanding of economic efficiency and fiscal sustainability.

In Indonesia the five year and annual action plans are the most important process for government, parliament and the Indonesian people to set and achieve consensus on priorities thus improve coordination and policy consistency. For example, the binding commitments to budget deficits, and asset recoveries for budget finance have been key policy anchors. Last year's accomplishment was the Propenas, and FY 2001 saw the passage of the Repeta including the beginning of a multi-year macro-framework through 2004.

Workplan Activity 1: *Model Development, mid-term macroeconomic analysis, policy agenda development and projections.*

Accomplishments:

A major accomplishment here was assisting Bappenas with input into the drafting of the new investment law. The new law will merge the two existing laws (law on domestic investment [1968] and law on foreign investment [1967]) into one law. The final draft was circulated in early November 2001. A key success to which the consultant contributed towards was the insertion of "national or equal treatment between domestic and foreign investors" in the draft. Other key provisions include guarantees against nationalization and fair and prompt compensation; guarantees of access to foreign exchange and repatriation of capital and profits. The draft law also signals a shift towards foreign investment registration instead of approval (except if the investor is applying for facilities), which had been past practice. Nevertheless, there are several outstanding issues that undermine the promotional value of the draft or are in potential conflict with other government policies. These include clarification

Partnership for Economic Growth (PEG)

of FDI registration procedures; clarification of responsibilities between central government and local governments in registering/approving FDI; and tax incentives.

A more purely model development activity was improvement in the monetary sector module with revised money demand and exchange rate components. These developments have helped improve Bappenas's inflation forecasting capacity for the central government budget projections and annual plan Repeta.

Worked with Bill Wallace and Chris Manning at Bappenas on a work program on employment and minimum wage issues. This program began in FY 2001 with an initial consultancy by John Harris, but by mid year had become a major policy area that will carry over into FY 2002. Following on from the Harris consultancy, the consultant initiated a comprehensive study on minimum wage effects on urban employment with Jakarta-based social institute SMERU. The study was completed around September and was used as a major input into Bappenas' policy work on employment issues. The work was subsequently extended by the consultant (with Chris Manning, the labor policy expert) to include the informal sector. The consultant has also worked with Chris Manning on the Bappenas white paper on employment.

FY 2001 also saw the completion of the second Bappenas Macro-policy overview white paper "The Indonesian Economy in the Year 2001: Prospects and Policies" and substantial work on the third white paper for publication early 2002. These white papers include important synthesis of policy issues (from throughout the Planning agency, government and foreign advisors). Therefore they are an important testing and development ground for the formal government policy actions as included in the Propenas and Repeta. The white paper was finished in December 2001 and distributed first quarter 2002 was distributed to the cabinet and copies made available to echelon one officials throughout the government.

Workplan Activity 2: *Capacity building*

Accomplishments:

This activity involves direct hands on support to Bappenas staff outside the core tasks above, although overlap can be substantial. Important contributions were made in:

Assisting Bappenas in developing and producing monthly and quarterly inflation forecasts and the monetary survey.

Extensive work with staff on investment policy, maintaining data base on economic indicators and analysis of real sector development.

Workplan Activity 3: *Crisis support/catch all*

Accomplishments:

Efforts seemed to fall into a number of areas.

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- Related to my overall work plan I wrote numerous memos on real sector and macro related issues (inflation, exchange rate developments). Throughout the year wrote memos on investment policy, reviewed drafts of the investment law, and assessed the costs of fiscal incentives for investors.
- I worked with Bappenas staff on the Financial Sector Policy Committee which oversees the government's restructuring of non-performing loans transferred to IBRA. This work involved writing memos on policy issues as they arise during the course of the year.
- Developed and supervised consultancy/study on minimum wages undertaken by SMERU.
- Provided an assessment of the proposed law on the Batam FTA as requested Minister of Finance and coordinated by Bill Wallace.

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Individual Annual Progress Report:

*Dr. William Wallace,
Macroeconomic Advisor Bappenas*

Reporting Period: 2001

Introduction

This year completes the third year of PEG activities at Bappenas. Since January 1999 the consultant's primary task has been to improve the macroeconomic analysis and policy proposals in the the National Development Plan (Propenas) and the annual policy action plans (Repeta). The priorities and action plans developed are necessarily extensive and the advisor (and others on the team at PEG/Bappenas) assist Bappenas staff in assessing and analyzing policy across a broad set of areas. This also necessarily involves working with and coordinating Bappenas staff research and model development, short-term consultants under PEG for the planning agency, other PEG/Bappenas advisors, other consultants under PEG and ECG, and other multilateral and bilateral advisor efforts. While there remains room for improvement, these new development programs represent a conceptual breakthrough. They are more focused on national priority issues and better identify and attempt to better separate central government obligations and priorities from regional ones while empowering the regions and sectors to go forward with their own efforts. Finally they are typically being developed with more input from stakeholders and better coordination within the government. Finally, these programs generally reflect a better understanding of economic efficiency and fiscal sustainability.

In Indonesia the five-year and annual action plans are the most important process for government, parliament and the Indonesian people to set and achieve consensus on priorities thus improve coordination and policy consistency. For example, the binding commitments to budget deficits, and asset recoveries for budget finance have been key policy anchors. Last year's accomplishment was the Propenas, and FY 2001 saw the passage of the Repeta including the beginning of a multi-year macroframework through 2004.

Workplan Activity 1: *Model Development, mid-term macroeconomic analysis, policy agenda development and projections.*

Accomplishments:

The primary accomplishment here was assisting in the completion of the first Repeta in the second quarter inclusive of its macroframework for the budget in 2002, and its incorporation, especially its focus on fiscal sustainability, as one of the points in the current LoI.

A more purely model development activity was designed to add consolidated regional accounts. Unfortunately this was completed due to insufficient data on Kabupaten and Provincial budgets. As a substitute an exercise that simulated regional allocation formulas using pre-crisis regional budgets was done.

Partnership for Economic Growth (PEG)

Worked with Kelly Bird (real sector advisor at Bappenas and Chris Manning on a work program on employment and minimum wage issues. This program began in FY 2001 with an initial consultancy by John Harris, but by mid year had become a major policy area that will carry over into FY 2002.

FY 2001 also saw the completion of the second Bappenas Macro-policy overview whitepaper “The Indonesian Economy in the Year 2001: Prospects and Policies” and substantial work on the third whitepaper for publication early 2002. These whitepapers include important synthesis of policy issues (from throughout the Planning agency, government and foreign advisors). Therefore they are an important testing and development ground for the formal government policy actions as included in the Propenas and Repeta. The Whitepaper finished in December 2001 and distributed first quarter 2002 was distributed to the cabinet and copies made available to echelon one officials throughout the government.

Workplan Activity 2: *Capacity building*

Accomplishments:

This activity involves direct hands on support to Bappenas staff outside the core tasks above, although overlap can be substantial. Important contributions were made in:

- Assisting Bappenas in developing and producing a quarterly macroeconomic forecasts.
- Extensive work with staff on regional decentralization including
 - Organizing and funding through PEG a number of trips to the region to investigate developments in employment, investment and regional budgeting.
 - A decentralization research and policy paper for the Monetary, Fiscal Directorate.
- Continued to work with staff on the preparation of memos to senior officials, as well as speeches and presentations to outside audiences.

Workplan Activity 3: *Crisis support/catch all*

Accomplishments:

Efforts seemed to fall into a number of areas.

- Most closely related to my overall work plan I wrote numerous memos on macro and budget related issues. Early in the year this involved flagging the increasing problems with the budget position prior to a revision in June, later in the year memos were in support of fiscal sustainability and various budget concepts particularly how the deficit currently in use compares
- I worked with the Chairman and staff on policy statements in preparation for meetings with the donors (CGI and others), on macro issues, budget issues, and aid effectiveness.

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- I served as a peer reviewer on the World Bank Publication for the CGI “Indonesia—The Imperative for Reform”.
- Developed and supervised consultancies on labor (John Harris) and investment (Lex Rieffel).
- Coordinated PEG wide responses on numerous requests from the Minister of Finance on trade related issues. In FY 2001 these primarily included Batam and bonded zones, but analysis on the organization of trade policy, customs reform and other issues was done.

Partnership for Economic Growth (PEG)

Individual Annual Progress Report

Dr. Chris Manning, Labor Policy Advisor, Bappenas

Reporting Period: 2001

Introduction

This was the consultant's first year at Bappenas, beginning July 21, 2001, and the first year in which PEG-Bappenas mounted a concerted effort in the field of labor policy. Bill Wallace (Macroeconomic Advisor) and Kelly Bird (Real Sector Advisor) had both begun work in this field in 2000 and the first half of 2001 with a short-term consultancy by John Harris on labor policy, and commissioned research by the SMERU research institute on the impact of minimum wage policies. Bappenas was viewed as potentially playing a critical coordinating role in labor policy, especially after the Directorate of Manpower under a new Director was transferred to the Macro Economic Division in 2000. At the same time, labor issues had emerged as more critical from both a macroeconomic and social (poverty) perspective in Indonesia during 2000-2001. The Ministry of Manpower took a more populist approach to policy, partly under pressure from much more active trade unions, which potentially threatens employment growth, and also has implications for price stability and investment recovery. Labor issues have been viewed, therefore, in the context of both macroeconomic policy and real sector recovery (including the impact on poverty alleviation) in the work conducted by the Bappenas team.

Workplan Activity 1: *Overall leadership of technical assistance on labor policy at the Bappenas culminating in a White Paper on this subject.*

Accomplishments:

The main achievement was improvement in the analytical ability and policy understanding of the Directorate of Manpower at Bappenas, in order to help it take the lead in policy formulation in this important area of public policy. By November-December 2001 the Director of Manpower had begun to take the lead in discussions of labor policy with the Economics of Coordinating Ministry, the Central Bureau of Statistics and Ministry of Manpower, and had also circulated a paper on minimum wage policy widely within the government. The consultant completed memos and short papers, and participated in seminars, on various labor market policy issues during the second half of 2001, all of which will also contribute to the Bappenas White Paper. Memos covered wage trends, changing wages and employment structure in a dualistic economy, trends in wages and productivity in manufacturing, employment policy for poverty alleviation and minimum wage issues arising from the SMERU report on minimum wages. Besides memos to the Manpower Directorate at Bappenas, the consultant also prepared a series of memos for Bappenas for planning purposes (Propenas), and for the Coordinating Minister for Economic Affairs on labor policy, employment and poverty relationships.

Partnership for Economic Growth (PEG)

Workplan Activity 2: *A review of the current employment relations and dispute resolution laws*

Accomplishments :

A second aspect of the work on labor work at Bappenas was the management of research and analysis on major policy issues related to employment relations and dispute resolution laws. Even more than some other key areas of public policy, there has been a dearth of informed debate, guided by research findings and data analysis, to guide labor policy. The consultant assisted in turning the SMERU study of minimum wages into a broader policy document. This was the basis for the above-mentioned, widely circulated Indonesian language report on the same subject by the Manpower Director at Bappenas. A second major achievement was the design and completion of a field study, also conducted by SMERU, on the emerging industrial relations environment in Indonesia, the first of its kind undertaken in Indonesia since the crisis and the liberalization of trade union activity. A first draft of the research report was completed in December, and was to be revised in early 2002. The results of this activity, together with the research on minimum wages, were to feed into the above-mentioned White Paper, which would provide the Indonesian government with its first comprehensive policy document on this subject in two decades.

Workplan Activity 3: *Assistance to the PEG subcontractor SMERU in developing materials to assist district governments in thinking about labor policy*

Accomplishments :

The consultant worked closely with SMERU, with assistance from Kelly Bird, in developing a simple manual on minimum wage setting, designed in comic-format, to be made available to provincial and district governments who now have responsibility minimum wages. The manual went through several drafts, and there are plans to publish it in 2002.

Workplan Activity 4: *Improvements to the labor monitoring database and monthly reports at Bappenas*

Accomplishments :

The consultant worked closely with the staff of the Directorate of Manpower on building up a database for labor force analysis. Several indicators of quarterly and annual change were identified and the consultant discussed the availability and timeliness of these data at meetings with the staff and staff of the Ministry of Manpower and Transmigration.

Partnership for Economic Growth (PEG)

Workplan Activity 5: *Capacity building activities with PEG grantee IRIS*

Accomplishments :

Together with IRIS staff, LPEM and David Ray, the consultant began planning a series of workshops on regional development and fiscal policy, to start in February 2002 and extend through to July 2002. The consultant provided technical advice to IRIS on regional university support programs and also met several times with IRIS staff at the parliament to advise on aspects of economic policy, especially in the area of labor and employment.

Partnership for Economic Growth (PEG)

Individual Annual Progress Report

*Stephen Magiera,
International Trade Specialist*

Reporting Period: 2001

Workplan Activity 1: ***Trade Policy Reform:** Update the project's trade policy database and provide policy memorandum on trade policy issues as requested.*

Accomplishments:

- The project's trade and trade policy databases were regularly updated, and expanded to include Indonesia's WTO bound rates, the latest automobile reform package, the information technology agreement, and Indonesia's AFTA rates. The database was used for briefings and trade policy reports for the Minister and other senior Government officials, including:
- A report and briefing on Indonesia's trade policies during the past decade. These were prepared for the Minister of Industry and Trade and the Coordinating Minister, as input for the Minister's trade policy strategy report, and as background material for the WTO ministerial in Singapore and the APEC Trade Minister's Meeting.
- An analysis of Indonesia's tariff structure (tariff averages and dispersion by sector) for Indonesia's APEC action plan. The action plan was presented at the Shanghai meeting of APEC Leaders.
- A report on tariff reform in Indonesia, its impact on trade, and policies to expand Indonesian exports. The report argues that there is no evidence to suggest that Indonesia's trade balance has been negatively affected by the trade reforms of the past decade.
- With consultants from PEG-Bappenas, briefed the Minister of Finance on the operation of Team Tariff, international best practices for anti-dumping, and Indonesia's trade policy reforms.
- Updated a survey of rice policy prices in Asia for recommendations on Indonesia's rice policy, and prepared a note on problems and policies for moving into higher valued agricultural products.

Partnership for Economic Growth (PEG)

Work Plan Activity 2: *Support for Indonesia's Participation in Multilateral Trade Negotiations: Provide technical assistance and training on multilateral trade negotiations, including the WTO's build-in agenda on the agricultural and services negotiations.*

Accomplishments:

PEG has a comprehensive program to help the Government participate in the WTO and other international negotiations. For the past year, the program has focused on the services negotiations and consisted of two main components. The first is a training program on the service negotiations. The second involves the collection and analysis of laws affecting foreign service providers in Indonesia.

- **Training on WTO services negotiations.** The training course consisted of two parts. The first was held at Government ministries and trained officials in the technical aspects of scheduling commitments for services. Seminars were held at the Ministries of Public Works, Environment, and Justice and Human Rights. The second provided an overview of the Uruguay Round Agreement on Services, a status report on the current round of negotiations, technical information on how commitments are scheduled, and examined strategic issues of interest to Indonesia, including the benefits of unilateral liberalization. Participants numbered over 120 and came from government ministries representing major service industries. These included construction and engineering, the environment, finance, communications, maritime shipping, airlines, and professional services.
- **Scheduling Commitments.** In order to assist the Government in the preparation of services schedules, prepared two reports on barriers to foreign trade and investment in services in Indonesia. The reports cover education and professional business services (legal, financial, health, architects, management consultants, etc.) The results were presented at an inter-agency meeting on services and used to illustrate what is needed by Indonesia in other services sectors.
- Completed two reports on the status of the services and the agricultural negotiations.

In addition to the above, assisted the Government on selected WTO issues:

- Evaluated the legal status of Indonesia's commitments under the WTO Information Technology Agreement and determined whether Indonesia's staging process for implementation is in conformance with those commitments.
- Reviewed a draft Presidential Decree that would establish safeguard procedures in Indonesia. The review provides recommendations on ways to make Indonesia's procedures consistent with WTO rules and on best practices internationally, including a national interest clause and a lesser duty rule for the removal of injury.

Partnership for Economic Growth (PEG)

Work Plan Activity 3: *Telecommunications Regulatory Reform. Develop a modern telecommunication regulatory system for Indonesia and assist in the implementation of Indonesia's Telecommunications Law.*

Accomplishments:

Organized a major program of work on the implementation of Indonesia's Telecommunications Law. The program included technical assistance on international best practices for implementing the Law, and roundtable discussions and training on telecom regulatory issues for the Ministry of Communications, the Indonesian Telecommunication Society, and the private sector. The project resulted in the following outputs:

Technical reports and recommendations:

- Recommendations on technologically neutral policies for voice over internet (VOIP) and a VOIP clearinghouse.
- A Ministerial briefing on the problems facing foreign investors under Indonesia's BOT schemes (KSOs) for telecommunications.
- Recommendations on a new approach to meeting universal service obligations (USO) in Indonesia (the competitive access model for universal service). The model relies heavily on the private sector, particularly with respect to choice of technologies and location of universal service projects. This is in contrast with the Government's centrally planned model (CPM). The analysis also includes estimates of the USO tax base and a model for calculating the net present value of USO projects. The recommendations are being reviewed by USAID Washington for use in other countries.
- A report on the interrelationship between interconnection rates, retail pricing, and universal service obligations. The report recommends that Government regulatory authorities adopt a coordinated approach to addressing these issues.
- A review of Indonesia's draft Broadcasting Law, including recommendations by the U.S. private sector and the Motion Picture Association of America.
- ICT action plans for the Ministry of Transport and Communications and for the Ministry of Industry and Trade, which are based on the Indonesian action plan from Team Telematica.
- A report on restructuring the Indonesian telecommunications market through greater competition is in process. The report examines the legal obligations resulting from loss of exclusivity and the sale of cross ownership shares by PT Telkom and PT Indosat. The objective is to provide a vision for the Indonesian telecommunications market under various scenarios.

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Informal roundtable discussions:

- A round-table discussion on Indonesia's draft Cyber Law at the Ministry of Communications (with ELIPS Project).
- Round-table discussions with the Ministry of Communications on the status of telecommunication regulatory reform in Indonesia. The review covered telecom pricing, interconnection, licensing, industry restructuring, and the establishment of an independent regulatory body.
- Participated in planning meetings for USAID sponsored activities in Information Technology; provided input on telecommunications policy for USAID's report on development of information communications technology in Indonesia.

Conferences, workshops, and other formal presentations on telecommunications regulatory issues:

- Organized the ANE and Global Bureau's Asian Telecommunications Regulatory Workshop in Jakarta. The workshop covered international best practices for regulating telecommunications and was attended by approximately 55 delegates from Thailand, Sri Lanka, Vietnam, the Philippines, Mongolia and Indonesia.
- Organized a workshop on an independent regulatory body for telecommunications, which was co-sponsored by Indonesia's Ministry of Communications. Over 110 people from the Indonesian Government and private sector attended. Discussants included three former director generals and senior leaders of the Indonesian telecommunications community.
- Discussant on telecommunications regulatory reform at the CSIS Workshop on "Institutional Capacity Building in a Globalized Economy."
- • Regularly briefed the AMCHAM Telecom Committee on telecom regulatory reform and implementation of Indonesia's Telecommunication Law.
- Presented recommendations for a new universal service program in Indonesia at a seminar sponsored by the Ministry of Communications: "Kewajiban Pelayanan Umum (USO) Memenuhi Hak Masyarakat atas Akses Jasa Telekomunikasi dan Informasi." The President of Mastel and other representatives of the Indonesian business community also made presentations.
- Prepared briefing materials and represented USAID at the Donor's Meeting on ICT development, which was held at the World Bank. The purpose of the meeting was to review donor activities in reference to Indonesia's action plan for ICT development. Also, coordinated activities on telecommunications and ports with the Bank's Infrastructure Division.

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Training Activities (APEC Capacity Building):

- Sponsored one Indonesian attendee from the Ministry of Industry and Trade at the APEC WTO Basic Telecommunications Training Program in Singapore, August 27-31.
- Sponsored one Indonesian attendee at the APEC Symposium on Intellectual Property and Information Technology in South Korea.

Workplan Activity 4: *Enhancing Service Industry Competitiveness: Conduct sector studies on regulatory reforms and competitiveness issues in the services sector.*

Accomplishments:

Coordinated PEG activities with a World Bank Team which examined cluster development in the services sector. Helped coordinate a study on Indonesia's ISP industry which was done under the CSIS-Columbia grant. See also workplan activities under WTO services negotiations.

Work Plan Activity 5: *Respond to short-run staff requests and prepare speech materials as requested:*

Accomplishments:

Responded to short-term requests and help draft speeches for senior Government officials, including:

- Opening Remarks for the Director General at a conference organized by the Columbo Plan. The speech focused on why technical assistance is critical to developing country participation in multilateral trade negotiations.
- Briefings on the new economy and harnessing the digital era for economic development for the Minister of Industry and Trade. The briefings were used in preparation for the meeting of G15 trade and economic ministers.
- Two keynote addresses for the Minister of Communications on the digital divide. The speeches were presented at the annual meeting of the International Telecommunication Union and at the Asian Pacific Telecommunications Forum and Exhibition.
- Speeches for the Minister and the Head of R/D on environmentally sustainable production practices.
- Review of the Shanghai Leaders Declaration and the Shanghai "Accord" for Indonesia's delegation to the meeting of APEC Trade Ministers; and a briefing

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note on Indonesia's WTO commitments in agriculture for Indonesia's APEC and WTO negotiating teams.

Workplan Activity 6: *Ad Hoc Requests/Meetings*

Accomplishments:

Responded to a large number of requests from the Government, USAID, the Economics Section of the U.S. Embassy, U.S. private companies, and international institutions. Examples are: 1) requests for information on WTO services negotiations and APEC; 2) briefings on PEG activities for the Minister of Industry and Trade and other senior Government officials; 3) donor coordination for APEC technical assistance initiatives; 4) coordination on Indonesia's new cyber law; 5) a review of world sugar policies in response to Indonesian proposals to raise tariffs; 6) a review of recommendations by the World Bank on E-Government; 7) briefings for the U.S. Embassy on Indonesia's trade policy commitments, reforms, and sources of information on trade policy; 8) coordination with the USAID food policy team on Indonesia's agricultural trade policy; 9) coordination with the World Bank on telecommunications regulatory reform.

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Individual Annual Report

Dr David Ray, Domestic Trade Advisor

Reporting Period: 2001

Introduction

In 2001, the PEG-MoIT Domestic Trade Advisor played an important role in improving GOI awareness of the potential dangers of decentralization upon the business climate, in particular the freedom to trade across sub-national boundaries. PEG activities have included a number of regional seminars and conferences on the importance of free internal trade in the decentralizing era (including a major national conference in April 2001), as well as a series of monitoring studies in select regions. As a result of PEG's efforts, the MoIT - in cooperation with PEG - is now working on a new domestic trade law that seeks to ban all forms of tariff and non-tariff barriers in domestic trade.

Similarly, PEG has played a pioneer role in exploring the interface between decentralization and competition policy. Through its regional studies and various policy papers, PEG has identified a number of ways that local government's can interfere with the competition environment and has put forward key policy recommendations that are likely to be incorporated into the above-mentioned domestic trade law.

More generally, the urgent and continuing need to continue the deregulation process remains an important focus for the PEG Domestic Trade Advisor. Activities included identifying and assessing the economic impact of distorting policies and regulations, as well as the benefits of deregulation, particularly in sectors traditionally dominated by the public sector. An example is the recent TA work which illuminated the considerable benefits to international and domestic trade from port and shipping sector reform.

Work Plan Activity 1: *Competition, Deregulation and Consumer Protection: Assist with the development of legislation and supporting institutions at the national level that will help ensure fair trade and competition for all parties in an increasingly deregulated economic environment*

Accomplishments:

A series of policy papers were produced on how to ensure free and fair competition in an increasingly deregulated and decentralized economy. These included:

- A policy study on the licensing regime confronting SME business
- A paper on key challenges confronting MoIT in implementing the newly established Consumer Protection law.

Using these and other materials wrote a series of short policy papers to be imported into the Domestic Trade section of the MoIT's trade policy strategy. The 20-page document titled 'Strategic Environment – Domestic Trade' provided a brief discussion of regulatory problems and policy recommendations in a number of areas

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including competition policy, SMEs, consumer protection, regional autonomy and efforts to increase local content.

As well as providing important technical assistance in the form of memos and reports, another important focus for this workplan activity in 2001 was raising MoIT capabilities through training. To this end, Ted James and myself designed and ran a training course for 25 MoIT staff on key issues in domestic and international trade. The course began in late September and continued through to mid November. I lectured and prepared notes on decentralization, SME policy, investment policy and privatization. The course was well attended and much appreciated by our counterparts.

The year ahead:

MoIT requires further assistance in developing the domestic trade section of the trade policy strategy. There is also an urgent and on-going need to raise the technical capability of MoIT staff

Work Plan Activity 2: *Distribution Systems:*

Identification and analysis of issues and problems affecting the distribution sector in general, and/or the distribution system for specific commodities

Accomplishments:

An important result was the production of a report on competition problems in the distribution sector. A key focus of this study was to investigate the accusation that a local mini-market company (Indomaret – part of the Salim conglomerate) uses anticompetitive practices to put small-scale traditional researchers out of business. The report found no such evidence and was widely used in the debate regarding the competition commission's controversial decision on Indomaret.

Another important focus in 2001 was to raise the technical ability of MoIT to monitor food distribution systems. To this end reviewed the processes and capacity of the Ministry's price monitoring unit (PIP - *Pusat Informasi Pasar* - which collects daily price data for around 25-30 key commodities from Provincial capitals). Reporting to the DG Domestic Trade, the review showed that there was need for better storage and processing techniques. To this end PEG has designed and organized training for key PIP staff on use of database software. PEG has also collected, processed and 'cleaned up' the data (to a certain extent) for use in this training program. PEG-MoIT is also planning to use this data to measure price dispersion as an indicator of distribution efficiency.

The year ahead:

There is need to help MoIT develop a more sophisticated data management system that can be used to better monitor the distribution system. Demonstration on how the data can be used is also urgently required, so that MoIT staff can carry out the analysis themselves.

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Work Plan Activity 3: *Decentralization and Domestic Trade:*

Analysis and policy assistance in regards to the impact of regional autonomy upon domestic trade and the business climate at the local level.

Perhaps the greatest achievement in 2001 was the efforts to monitor how decentralization is impacting upon domestic trade. To this end, PEG commissioned the SMERU Research Institute to undertake three regional studies – North Sumatra, West Java and North Sulawesi. The results from these studies were socialized in various regional seminars and a major conference in Jakarta (described below) and are widely referenced in various reports and academic papers. Other similar studies were also carried out, including field visits by the Domestic Trade Advisor to North Sulawesi and North Sumatra. A survey of 400 SMEs across 8 cities on the impact of decentralization on the business climate was also conducted.

As a result of the above activities, PEG-MoIT was and remains the key source of information on how decentralization (i.e. new local regulations) is impacting upon the business climate.

Another important focus in the workplan activity was the help MoIT develop the necessary institutional and policy framework to ensure free, open and competitive markets in the decentralizing era. To this end, PEG held a one day conference titled ‘Domestic Trade, Decentralization and Globalization’ on the 3rd of April 2001 at the Borobudur Hotel, Jakarta. The conference was well attended with around 150 people from local and central government, academia, NGOs and business. Presentations were made by leading local economists and international experts. The MoIT was actively involved in the conference providing the opening speech and an official response to a policy recommendations paper.

The MoIT has used the papers from the conference, particularly that by the Domestic Trade Advisor and the former COP PEG Gary Goodpaster, to provide key recommendations to the Minister and also as academic input to the proposed domestic trade law now being considered. As a follow up to this conference MoIT commissioned the Law Faculty at UI to write the academic text (*Naskah Akademik*) and initial draft for a new domestic trade law (*UU Lalu Lintas Barang dan Jasa yang Beredar di Dalam Negeri*). This proposed law is designed primarily to eradicate all forms of tariff and non-tariff barriers in internal trade. Given the plethora of new local regulations that distort domestic trade, the law is urgently required.

The Year Ahead:

There is a continuing need to monitor new local regulations that distort trade and other business activities. The development of the proposed domestic trade law will require substantial input from PEG-MoIT.

Work Plan Activity 4: *Transport Policy and Domestic Trade*

Analysis and policy assistance with regards to the impact of transport policy and systems upon regional development and domestic trade.

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With the assistance of Nathan consultants, PEG-MoIT produced a comprehensive study on the shipping and port sector. The report, which was well received by the Ministry of Communications (in this case the principal counterpart agency) and identifies key areas where there is urgent need for reform, e.g. the mechanisms by which the private sector can invest in ports, various regulations that inhibit competition, and the regulatory role of the state-owned enterprises that control the commercial ports. The results of this report were socialized in various seminars at the MoC and the MoIT. A summary of this report was imported directly into the MoIT trade policy strategy paper.

The Year Ahead:

Further research is required to determine the best means of promoting private sector participation. It is proposed to assist the GOI in the preparations for a particular new port privatization and to use this as a model for others.

Work Plan Activity 5: Industrial Competitiveness .

Research and analysis of key issues affecting Indonesia's industrial competitiveness.

A major report on improving the competitiveness of the electronics sector was produced and distributed to counterparts. (Author was Idris Sulaiman.)

With Ted James commenced a study on the competitiveness of the Indonesian textile and garments sector. Undertook field trip to Bandung for interviews with industry players

Drafted and distributed memo on commercializing MoIT's Textile Institute (*Balai Besar Tekstil*) in Bandung. The institute was visited by Ted James and myself as part of our fieldwork on the textile and garment sector described above

Along with Idris Sulaiman, organized and accompanied team from JAAustin Competitiveness program in Bandung West Java. As part of this program four industry roundtables were organized to discuss competitiveness issues – 1) Textiles, 2) Leather and leather products, 3) Furniture and handicrafts and 4) IT, electronics and multimedia.

Wrote terms of reference for industry study on plastics and petrochemicals.

The Year Ahead:

The MoIT is continuing to request studies on key industry sectors. An important focus early in the year will be to continue the study on the demand and supply side constraints facing the textile and apparel sector. The plastics study will also be completed in the first half of the year and will need to be socialized. Also, the MoIT is continuing to request assistance in reforming the Ministry's business development institutes.

Partnership for Economic Growth (PEG)

Individual Annual Progress Report

William E. James

Reporting Period: July 31-December 31, 2001

International Economist

Macroeconomic Aspects of International Trade:

Export Performance, Competitiveness and

Market Access and Open, Market-Friendly Policies

Workplan Activity 1: Export Performance: *Provide analysis of Indonesia's non-oil/gas export performance in light of international macroeconomic developments.*

Accomplishments:

- Prepared a technical report *Indonesia's Export Performance and the Global Economic Slowdown: A Comparison with other East and Southeast Asian Economies* with a summary memo for the new Minister (also distributed to the Secretary General and Director General for International Cooperation). The Minister read the report and instructed me to meet with the Director General Hatanto Reksodiputro to follow up with a more detailed analysis of export performance in order to identify potential markets and products that offer potential for expansion.
- A meeting was held with Director General Hatanto and the broad outlines of a study of export performance over the first two quarters of the year covering the 15 largest markets for the 50 most important products (SITC 3-digit) was agreed upon once data are available.
- Updated technical report *Indonesia's Export Performance and the Global Economic Slowdown: A Comparison with other East and Southeast Asian Economies* to cover the first three quarters of 2001 compared with the same period in 2000. The updated report was provided to the Minister and she responded by requesting analysis of the performance of Indonesian products in the US and other major markets. In response, a TOR was drafted and approved for engaging a short-term consultant to assist with the analysis and this work will be completed in the first quarter of 2002.

Work Plan Activity 2: Institutional Support for Market-Friendly Policies

Accomplishments:

- Conducted an eight-week training program on *Key Issues in Domestic and International Trade* jointly with David Ray for 20-30 officials from the Ministry. Sessions included four lectures: 1) The Gains from International Trade and Indonesia's International Economic Policies in the 21st Century; 2) The Rise of Antidumping as a Form of Protection: Evidence and Options for Indonesia; 3) The Rise of Preferential Trading: Rules of Origin & Market Access; and 4) Macroeconomics, Exchange Rates and Export Competitiveness. Lecture notes on all four topics were provided to the participants.

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- Prepared a technical report *A Note on Pre-Shipment Inspection of Imports* for the Minister in light of complaints regarding irregular import practices.
- Began exploring issue of how Indonesia's textile industry is preparing for future competition, particularly in light of the phasing out of the MFA. Meetings were held with the Indonesian Textile Producers Association (API) and follow-up activities are being planned.
- Participated as a panelist in the Columbia University-CSIS Seminar on Competition-Based Trade Policies.
- Discussions were held with counterparts regarding on-going PEG activities in early October. Meetings were held with the head of the Textile Industry Directorate and his staff in early December in order to collect additional information and data for the Textile and Apparel study (with David Ray).

Work Plan Activity 3: *The New Regionalism: Implications for Indonesia*

Accomplishments:

- Prepared a technical report *The New Regionalism in East Asia: Implications for Indonesia*. This report was provided to the Minister with a cover memo indicating the potential significance of the recent wave of new free trade agreements for Indonesia.

Additional Activity: **Bank Indonesia:** *Provide Input on Indonesian Trade Performance and the Global Economic Slowdown and the Aftermath of the September 11 Attacks.*

Accomplishments:

- Assisted in arranging meetings with Senior Bank Indonesia Officials in order to facilitate work on asset freeze and compliance with UN Security Council Resolutions. Helped arrange visit of US Treasury Department expert Gary Peters and facilitate meetings with Governor of Bank Indonesia and his Senior Staff.
- A seminar on the topic *Indonesian Export Performance and the Global Economic Slowdown* was presented to the forecasting group of Bank Indonesia in support of their preparations for the annual meeting of the Board of Governors of BI. Discussions were held with BI staff on issues likely to arise in the coming year with respect to international trade and related macroeconomic issues.
- Meetings and discussions were held with Senior Deputy Governor of Bank Indonesia Anwar Nasution regarding the situation with respect to the asset freeze issue and related matters. This was a follow-up on the visit of Gary Peters on these matters.

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Individual Annual Progress Report

Dr. L. Peter Rosner
Monetary Policy Advisor
Bank Indonesia

Reporting Period: 2001

Peter Rosner left the PEG Project on June 30, 2001.

Workplan Activity 1: *Quarterly Macroeconomic Model.*

Deliverable: Analysis of the possible impact of a global economic slowdown on Indonesian non-oil exports.

Progress this Year:

Staff in the macroeconomic studies division of BI's research department continued to work of the quarterly macroeconomic model with support from Gajah Mada University. Assistance to this effort was provided in the form of a short study on the relationship between Indonesian non-oil export growth and world GDP growth.

Status of Deliverable:

A short report on the relationship Indonesian non-oil export performance and the performance of the world economy was prepared in February. The report showed that historically Indonesia's non-oil export growth did not correlate with growth of the world economy. US imports from Indonesia were also unrelated to the overall growth of the US economy. This finding was useful for developing the trade equations in the macroeconomic model.

Workplan Activity 2: *Exchange Rates and Inflation*

Deliverable:

1) Inflation scenarios for 2001

Progress this Year:

At the beginning of each year BI presents an economic report to Parliament with targets and projections for the coming year. In support of this report, staff in the real sector division prepare inflation scenarios under different assumptions about the exchange rate, growth, and exogenous factors. To assist this effort, a short study was undertaken using a 3-way model of the CPI to assess the likely impact of different exchange rate paths on inflation. The exchange rate was assumed to affect only the price of tradables in the CPI and this relationship was estimated using a simple econometric model with monthly data over the period January 1997 to December 2000.

Status of Deliverable:

A short report on inflation scenarios for 2001 was delivered in January. Among the key findings were that BI's announced exchange rate projection would lead to a sharp drop in inflation in 2001, to 4%-5%, while a continuation of last year's depreciation trend would result in a 2001 inflation rate of at least 13%-14%.

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Deliverable:

2) Analysis of BI's annual inflation target.

Progress this Year:

BI is required by law to announce an annual inflation target each year "primarily by taking into account price developments directly affected by monetary policy" (Act 23/1999 p. 69). Current practice targets a measure of inflation that excludes the contribution to inflation of the government's price and incomes policy. As this practice is somewhat different from inflation targeting in other countries, an analysis of the implications of the current practice was needed.

Status of Deliverable:

A joint effort with input from staff in the policy analysis and planning division and the real sector division resulted in a brief report assessing the current inflation targeting method. The results were presented to the entire research department in a seminar in January. A key finding was that actual inflation will always be higher than the measure of inflation targeted by BI.

Deliverable:

3) Analysis of the source of growth of base money in 2000.

Progress this Year:

Under the IMF program, BI currently targets the growth rate of base money. In 2000 the agreed target growth rate was 8.3% but actual growth came to 24%. Extensive research has been conducted to determine the reason for this inability to meet the target and the implications for inflation and the exchange rate.

Status of Deliverable:

A short analysis was prepared in February showing that all of the growth of base money in 2000 could be explained by the growth in net international reserves. The high price of oil resulted in an oil windfall which provided a major source of revenue for the budget. However, the oil dollars were kept in offshore accounts under the management of the central bank, while the government's accounts at Bank Indonesia were credited with an equivalent amount of rupiah. Spending of these rupiah was the source of monetary growth in 2000. In effect, the government's year 2000 budget was financed by printing new rupiah.

Workplan Activity 3: *Equilibrium Real Exchange Rate*

Deliverable:

Analysis of exchange rate volatility before and after PBI 3/3/2001.

Progress this Year:

The rupiah lost 25% of its value against the US dollar in 2000. In an effort to stop this steady downward trend, Bank Indonesia instituted a new regulation in February designed to prevent the internationalization of the rupiah. The research department conducted follow up analysis to measure the effectiveness of this new measure.

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Status of Deliverable:

A short analysis was delivered in mid-March showing that exchange rate volatility did not decline following the introduction of PBI 3/3/2001 despite a significant increase in sterilization activity in the foreign exchange market.

Deliverable:

Analysis of intervention and interest rates.

Progress this Year:

The exchange rate came under extreme pressure in March, dropping from Rp 9,860/US\$ at the beginning of March to more than Rp 10,500/US\$ by mid-March. In response BI announced more intensive dollar sales. At the same time, measures were taken in the weekly SBI auction to limit the rise in nominal interest rates. The consistency of this policy mix was a focus of concern within the research department.

Status of Deliverables:

A short analysis was prepared in mid-March explaining that selling foreign exchange reserves while preventing an increase in nominal interest rates would be like pouring water on sand.

Workplan Activity 4: *Crisis Support*

Deliverable:

Crises were rife during the first quarter as Indonesia's macroeconomic situation went from bad to worse. Support included short notes on a broad range of topics, direct support to staff, meetings with key individuals in the research department, and editorial assistance.

Progress this Year:

Notes were prepared on export trends, inflation, monetary aggregates, interest rates, GDP and the exchange rate. Data bases were continuously updated to support these activities.

Status of Deliverables:

Numerous short notes.

Other Activity:

About three weeks were devoted to editing and translating Bank Indonesia's Annual Report for 2000, which exceeded 200 pages in length.

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Individual Annual Progress Report

*Dr. Thomas A. Timberg
Small Scale Credit Adviser,
Bank of Indonesia*

Reporting Period: 2001

There are four clients with whom I am involved for each of which there are different goals and joint activities. This is logical both because of the decentralized nature of policy-making about small and medium enterprise (SME) and microfinance and the actual pattern of demand for my services. Specific responses have been provided in each case to specific questions raised by clients -- but the focus of activities as indicated, has been on institutional strengthening and re-engineering government agencies for their new roles as part of a pro-market paradigm for SME promotion. The material below is represented in graphic form in an attached matrix, "Achievements 2001."

The four clients, the goals pursued and the major means for pursuing them are as follows:

Client 1: The Credit Bureau of Bank Indonesia, is a staff unit to Bank Deputy Governor Achjar Ilyas, designed to handle the residual direct credit activities of Bank Indonesia (which are being phased out rapidly) and to serve as a small staff unit concerned with policy and research for priority economic sectors such as agricultural, housing, consumer credit, and small enterprise. In this respect, the Credit Bureau's activity parallels similar activities conducted by most central banks and bank regulatory authorities, concerned with (1) the impact of their activity on the SME sector (impact on the Real Sector) and (2) handling dialogue on their regulatory role with those concerned with the SME sector concerned. There is still some tendency to hold on to the old vanishing direct credit roles, but almost everyone agrees to the refocusing in principle.

Client 2: The Rural Banking Directorate of Bank Indonesia continues to be responsible both for the Bank Perkreditan Rakyat (BPR) which constitute one of the major categories of microcredit institutions in the country, and more generally for banking regulation of all microfinance. What is needed is tighter supervision, which protects the country from prudential liability, at the same time that it is cheap and effective. A program of reform for BPR is already underway, in connection with GTZ (German Technical Assistance Agency) projects in the different parts of the country, and a program for more general regulation of microfinance institutions is under discussion.

The goals for the Rural Banking Directorate are to assist in the reforms underway, particularly in areas where GTZ is not active, and orient the Directorate toward international standards for microfinance with which USAID has been identified. This has been done through support to several targeted research projects by The Institut Bankir Indonesia (IBI) on issues that are critical, support for various workshops in the country at which key policy has been developed, and promotion of the Directorate's participation in international activities on microfinance

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regulation. During the next year a new Financial Services Supervision Agency (FSSA) or perhaps two will be created which may change the function of all these foregoing organs.

Client 3: The State Ministry for SME and Cooperatives (MennegKop) is the designated center for policy formulation and coordination for SME in the Government. The Ministry is challenged, de facto, by the many other ministries who assert jurisdiction over SME.

The goals for MennegKop are to encourage the State Ministry to focus on its policy formation and dialogue role and to strengthen it so that it can adequately deal with the other ministries concerned. A consultant has been provided to review SME laws and plans for business development services. Other technical support has been provided. More importantly, the Ministry has been supported in its work as the secretariat of the Task Force on SME designed to coordinate all government SME activities.

As a result, the Ministry has moved in a more market-oriented direction -- and has taken a more active role in coordination of government SME policy. The legal review is still in progress.

Since the Ministry is losing its large ADB financed team to assist its Task Force activities, it can be anticipated that requests will continue to come from the Ministry.

Client 4: The Banking Research and Regulation Directorate of Bank Indonesia, with which some work on Banking Supervision has been done and more generally work with other sections of Bank Indonesia particularly on issues connected with its institutional transformation.

Workplan Activity 1: *To respond to short-term BI crisis related requests for policy analysis in the areas of small and medium enterprises (SME) and alternative financial institutions (AFI), to include reviewing Indonesia's credit policies toward SMEs and suggesting policy improvements and alternatives that will promote broad-based economic growth in Indonesia.*

Accomplishments:

1. At the request of the ADB_TA team and the Directorate for Licensing and Information of Bank Indonesia, the Adviser has provided material and arranged sessions leading to the Directorate taking the lead in promoting the credit reference bureau/facility concept.

CREDIT REFERENCE BUREAU -- The creation of a credit reference bureau like Dun and Bradstreet in the United States is agreed to be a useful tool for facilitating bank, especially large bank, lending to SME. Efforts have been ongoing for more than a year to put such a bureau in place, either based on or in addition to the present Debtor Information System of Bank Indonesia. After one

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unsuccessful meeting, there was a meeting, in December, at which a TOR for a Task Force to formulate plans for such a credit reference bureau was agreed to by all parties (at least Bank Indonesia and MennegKop). This TOR is to be issued as a decree by the Minister of MennegKop (presumably with the Coordinating Ministry for Economic Policy's endorsement), implemented, and its implementation accepted.

2. The adviser continues to be active on the related questions of the regulation of non-bank microfinance institutions, external finance for microfinance institutions, and the regulation of banks and rural banks.

The Microfinance Institutions (MFI) Law will clarify the presently ambiguous status of small savings and loan units that are not banks and perhaps cooperatives. There are several tens of thousands of these controlled, by banks, ministries, provincial governments, nongovernmental organizations (NGO) etc. At present their deposit taking activity is in violation of the banking law. But, in addition, there are the usual prudential concerns about depositor protection. No one is proposing to regulate lending only institutions including their compulsory deposits. The present proposal also excludes smaller units with less than perhaps 50 million rps and provides that those with more than one billion in deposits should be registered as banks or cooperatives. For those in between, who do not want either status, a new status is suggested in which standards are set by the bank supervision authorities, but supervision and promotion handled to a sponsoring organization.

The MFI Law is sitting in draft with the Ministry of Finance (I would guess they are waiting for the disposal of the new Lembaga Pengawas Jasa Keuangan -- Financial Services Supervision Institution). Such a law is probably necessary to protect the public against rogue collectors of public deposits but the concern is that it not be the occasion for the imposition of additional "rents" on legitimate microfinance institutions.

3. Specific memoranda were provided various Deputy Governors and Directors of Bank Indonesia. Prof. Dr. Anwar Nasution, Senior Deputy Governor was sent memoranda on microfinance supervision, the PEG Project, and small banks. Deputy Governor Achjar Ilyas was sent various memoranda including ones on small banks, information Systems, and programs with Bank Indonesia's branches. Mr. Maman Soemantri, now Deputy Governor, was sent material on deposit guarantees in his post as Director, Banking Regulation and Research. Mrs. Ernawati, Director Capital in the erstwhile, Small and Medium Enterprise and Cooperative Development Agency (SMECDA) was sent several memoranda – on deposit guarantees for savings and loan cooperatives, training opportunities and internet resources on microfinance.

Partnership for Economic Growth (PEG)

The Year Ahead

Since this is a short response activity it is impossible to predict precisely what sort of item will be involved. Among the requests that can be expected are ones related to the proposed credit information bureau, external audit of microfinance institutions, and various ongoing research in Bank Indonesia. Other potential items have to do with deposit insurance, credit guarantees, specialized institutions, credit reference bureaus, and training issues.

Workplan Activity 2: *To conduct surveys of financial institutions and SMEs to verify (and correct where necessary), the available data, to include:*

- *Undertake Surveys of financial institutions and small and medium enterprises, including secular and Islamic cooperatives, commercial banks, BPRs, as well as client SME enterprises and other SMEs.*
- *Correlating and integrating survey findings with those of actors, e.g. USAID, other Indonesian government agencies, the Asian Development Bank (ADB), and examine various microfinance plans.*

Accomplishments:

- A. Three goals were being pursued with Credit Bureau-- (1) encouraging the focus on research and policy, (2) promoting the involvement with the SME community and the banks, and (3) in specific helping with phasing out the former requirements for SME lending quotas. These goals were pursued through cooperation on a study of SME lending by commercial banks, focussing on the actual constraints to SME lending. They were also pursued through a continuing series of Socialization Seminars in which the Deputy Governor of Bank Indonesia traveled to the regions to meet bankers, government official, and the private sector to explain Bank Indonesia's new role and support market based SME lending.
1. Three successful Socialization Seminars have been held in Jakarta, Banjarmasin, Denpasar, and Medan. The socialization seminars have resulted in a considerable enhancement of the dialogue between Bank Indonesia and its clientele among bankers and small businessmen, all of whom have taken active part in the seminars. Bank Indonesia personnel have evaluated the effect of this as very useful both in their own decision making and in increasing the general public's understanding of their role. An expanded program is now planned.
 2. A Study with the Credit Bureau on "Commercial Banks Systems and Procedures for Retail Loans and How They Influence the Volume of Such Loans" has been completed and a draft report is under review by Bank Indonesia. It appears that Class A private banks have incentives and systems for retail banking and are expanding to the limits posed by their underlying

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capitalization. Some of the government banks have workable approaches in place, but they have not yet spread them throughout their networks. Much of retail banking is consumer focussed and based on lending against fixed salaries.

The survey of the actual system and procedures of commercial banks in making SME and retail loans has been completed and is undergoing review in Bank Indonesia. This should provide a basis for sound policy development. Though there have been studies talking about a credit crunch -- the limitations on lending appear mostly connected with institutional capacity and commitment in the banks rather than available funds.

- B. The goals for the Rural Banking Directorate are to assist in the reforms underway, particularly in areas where GTZ (The German Government Technical Assistance Agency) is not active, and orient the Directorate toward international standards for microfinance with which USAID has been identified. This has been done through support to several targeted research projects by Institut Bankir Indonesia (IBI) on issues that are critical, support for various workshops in the country at which major policy has been developed, and promotion of the Directorate's participation in international activities on microfinance regulation. Included were studies of rural bank handling and reporting of financial data and the documentation in teaching case studies of successful experience in working out small loans by rural banks and also a study on best practices for rural banks.

As a result, the process of reformation of the supervisory system for BPR seems to be proceeding well. Two hundred and sixty weak BPR are being closed, and another 260 are waiting for closure. Applying the new standards to the remaining BPR should be relatively easy.

1. Two successful workshops were conducted with the Institut Bankir Indonesia and the Rural Banking Directorate on "Information Systems for Rural Banks" and "Turnaround Management for Microfinance Institutions." At the former the major vendors of software for rural banks showcased and discussed their wares. As a result Bank Indonesia decided not to back any particular product, but to set up a procedure to vet products. At the Turnaround Management Session the teaching cases developed by PEG with USAID assistance were showcased. It is now anticipated that the proceedings of both workshops have been disseminated including publication in different forms one in the form of an article in the Jakarta Post by the Adviser and a PEG Consultant.
2. The Adviser continues to serve on the Working Group on the external audit of BPR, including representatives of the banks and the accounting profession continues to work to develop a standard for such audit and appropriate training materials. Two Bank Indonesia bank supervision staff went to Bangladesh for an internship and reported to a public seminar in January 2002. A contest has been announced and is being publicized to provide an "experience base" for developing an accounting standard. This activity is designed as well to give a firm empirical basis for the development of manuals and training material for

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the external audit of BPR by public accountants, on which heavy reliance is now placed.

3. A study of the actual systems and procedures of the best BPR to serve as a benchmark for proposed "best practices" has been completed, but some of the data clearly require a re-survey in certain cases and a reselection has been scheduled. Eventually the results of this study will be used to redo the manual for BPR systems and procedures issued by Bank Indonesia.
 4. In collaboration with PINBUK (Project Inkubasi Bisnis Usaha Kecil) an apex organization for Islamic Savings and Loan Cooperatives a PEG In Kind Grant application has been approved for a seminar at which representatives of the Islamic Savings and Loan movement can discuss with the authorities an appropriate regulatory framework for these cooperatives.
 5. NEW LICENSES FOR BPR One of the highest priorities for increasing the volume of SME credit is the granting of new licenses, both for branches of commercial banks and BPRs. The regulations now more or less foreclose the licensing of new commercial banks. There are reported to be 30 applications for new BPR sitting with Bank Indonesia, the licensing authority, but others would clearly be forthcoming if the almost complete moratorium on new licenses since 1997 were to be lifted. New regulations for licensing have been enacted but not yet published. One PEG In Kind Grant Seminar has been held to consider a critical part of the new regulations, a requirement for an "independent" and therefore costly feasibility study. Various criticisms were voiced and the authorities committed themselves to some revisions, mostly emphasizing the fitness of the applicants rather than the content of the feasibility study. Two further seminars are planned for a broader public in which potential investors can explore the implications of opening new BPR, these will also be supported by a PEG In Kind Grant.
 6. The Adviser continues to work on Provincial Level Profiles on Microfinance. These will provide a baseline for developing regional approaches and give guidelines – as many have so far for specific USAID and NGO interventions in the provinces concerned
- C. As noted, the purposes of the cooperative work with MennegKop is to reorient its activity in a market oriented direction. This is accomplished both through work on revising the legislative framework for the Ministry's work and through efforts to change its modus operandi.
1. Discussions are proceeding about the locus of future work on revising small enterprise and subcontracting laws in close coordination with the Asia Foundation. A workshop was held by MennegKop on July 25-26 on "Research on SME Policy," focussing on the new SME and Subcontracting Laws. The report of Ms. Paramita of the Law Faculty of Diponegoro University on Small Business Law was received and discussed.

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2. A second study is underway conducted by Karen Bigler of SOAS and Prof. Hendrawan Supratikno of Satya Wicana University in Salatiga on subcontracting and partnership between large and small enterprises. The study should be finished in 2002 and presented to a seminar. This too should feed into a new proposed draft Law on Partnership. Both of the legal reform activities were connected with training arranged for concerned parties at the ELIPS Legal Drafting Course.
3. Assistance was provided for a Training Needs Assessment for the staff of regional offices associated with the Minister and its draft report presented in an intra-ministerial meeting in January 2002. An Adviser, Mr. Edward Canella was provided to review the Ministry's business development services plans which have now been implemented and for which a review is expected. Assistance was also provided for a seminar where all the stakeholders in the delivery of information services to SME discussed their respective roles. All of these activities are designed to help the Ministry define the shape of its further activities.
A study is planned of the Savings and Loan Cooperatives, which though quite large scale are in some state of disarray. The study was delayed because of bureaucratic reorganization in MennegKop but should go forward in the new year. The results of the study should permit the formulation of appropriate policy for this sector.

The overall policy for SME and SME finance continue to be highly contested. While the former banking regulations which mandated specific lending quotas and provided subsidized government funds through the Bank Indonesia have been removed there are strong pressures to restore the same evils in new forms. In addition to continuing pressure for subsidized credit lines and indirect subsidization through new institutions there is now an initiative, with support in some sections of the bureaucracy, to pass a Credit Law which would require a high level of directed credit as well as impose numerous anti-market restrictions on all credit institutions. The Adviser has been consulted by numerous parties, particularly foreign donors and private businessmen and bankers on this proposed law.

The Year Ahead

At this stage it is only appropriate to talk about the next six months since the project is due to end. The priority is finishing a number of outstanding activities as follows:

Studies

The Study of Commercial Bank Systems and Procedures for Retail Lending.

The BPR Best Practices Study

The Study of Savings and Loan Cooperatives

The Study of Partnership Relationships between Large and small Enterprises.

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Small and Microfinance Provincial Data Profiles

Seminars and Working Groups

Working Group on External Audit of BPR

The Seminar for Investors Interested in New BPR

SME Finance Research Training

PINBUK Seminar on Regulation of Shariah Financial Institutions

CGAP (Consultative Group Against Poverty) Training for Irian Jaya

There are also several new initiatives proposed as follows:

New Round of Socialization Seminars on Bank Indonesia's Role in SME Promotion.

Assistance to Proposed Commercial Bank Research of Bank Indonesia

Diagnostic Study of West Java BPR by Asia Foundation

Several of these activities involve working with other USAID contractors and grantees.

Workplan Activity 3: *To assist in developing networks between commercial banks and alternative financial institutions by analyzing the current condition of AFI and SME in Indonesia, to include:*

- *examining issues relating to the networking of various financial institutions; special attention must be given to Dabenas (An Foundation promoting linkages between BPR and commercial banks) and Barperindo (The trade association of BPR), as proposed bases for networking the pooling of funds, and other linkage possibilities between AFI and mainstream financial institutions, such as the USAID proposed Microlinks project.*
- *discussing proposed and potential SME initiatives, with particular attention to Islamic banking institutions and their potential in Indonesia.*
- *Discussing and negotiating results of these analyses with other actors to encourage a consensus on action, with additional follow-through activity as necessary.*

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Accomplishments:

This activity is intimately connected with the activity in Activity 2. Thus the activities recorded under Activity 2 are also addressed to this Activity. So far, several BPRs have expressed some interest in borrowing from such a network, but commercial banks in particular are still not sure about their lending plans. An institution for interlending among BPRs has been formed, but is not active except in East Java.

The Year Ahead

It is now proposed to found a Lembaga Pinjaman (A funds pooling institution for BPR). A memorandum was sent proposing to address this proposal through surveying BPR on their interest in such a facility under current conditions.

Workplan Activity 4: *To provide technical assistance and training in assessing alternative ways to handle SME functions, given different assumptions about organizational structure to BI.*

Accomplishments:

1. Two Indonesians, Mr. Achmad Effendy, Deputy Head of Bureau Credit of Bank Indonesia and Mr. A. Junaidi from MennegKop Attended the Boulder, Colorado Microfinance Course, July 27-August 17. This is one of the world's leading courses on the subject and introduced them and their organizations to the international state of the art on the subject. Discussions are still under way to institutionalize this sort of training in Indonesia. The Adviser had handled considerable work for CGAP in Indonesia, including arranging their representatives' schedules.
2. Two staff of Bank Indonesia did an internship with the Arthur Andersen affiliate in Bangladesh, Acnabin and Company, which is the world's leading center of expertise on external audit of microfinance institutions. A working group of stakeholders (Bank Indonesia, representatives of the accounting profession etc.) has being formed and met several times to help create a record of the experience with external audit of microfinance in Indonesia. Both of these should lead to creating a more effective system of external audit for microfinance institutions in Indonesia.
3. Discussions have been held at their request with Biro Shariah of Bank Indonesia (Developing the supervisory system for shariah financial institutions), about potential collaboration with USAID.
4. Two visiting consultants were supervised by the Adviser. Mr. Ed Canellas on Business Development Services to the erstwhile SMECDA and Mr. Peter Ferguson on Human Resource Development/Training for Bank Supervision to Bank Indonesia.

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5. An In House Course on Research Methodology for SME Finance was conducted for the staff of various sections of Bank Indonesia – besides an enthusiastic response – it was agreed to follow through on this course in Bank Indonesia and an article based on the Adviser's contribution to the course is under preparation.
6. A paper was given for the meeting of the Jakarta Chapter of the Indonesian Economics Graduate Association and a seminar arranged at Bank Indonesia for BRI researchers to present their results.
7. Collaboration with ACDI/VOCA, Yayasan Dian Mandiri, and the IRIS Project and the Mercy Corps were all oriented at designing or implementing new microfinance initiatives with USAID support.

The Year Ahead

Matters are already quite advanced for developing courses on the CGAP mould for teaching in Indonesia, and a similar course on external audit for MFI is under consideration. The impacts of the other training are also apparent in various policy initiatives.

A draft Training Needs Assessment recommends further training activity and is now under discussion, and two other in house courses for the Bank Indonesia staff on research methodology for SME and SME Policy. Other collaborative training is planned in banking supervision.

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3. "BPR Sari Weleri (B): Turnaround Strategy²" (Bahasa)
4. "BPR Sari Mranggen (B): Turn Around Strategy³" (Bahasa)
5. "BPR Sari Parakan (A)⁴" (Bahasa)
6. "Sari Group (B)⁵" (Bahasa)

² Kasus ini ditulis oleh Muchlis dan Sudarminto dari Institut Bankir Indonesia, didampingi oleh Sukiswo Dirdjosuparto sebagai second opinion. Penulisan kasus ini disponsori oleh USAID.

³ Kasus ini ditulis oleh Nyoman Suastini dan Lando Simatupang, anggota fakulti dari Institut Bankir Indonesia, didampingi oleh Sukiswo Dirdjosuparto sebagai *second opinion*. Penulisan kasus ini disponsori oleh USAID.

⁴ Kasus ini ditulis oleh Sukiswo Dirdjosuparto dari Institut Bankir Indonesia dan disponsori oleh USAID

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7. "BPR Sari Rejo (A)⁶" (Bahasa)
8. "BPR Sari Weleri (A)⁷" (Bahasa)
9. "BPR Sari Mranggen (A)⁸" (Bahasa)
10. "Sari Group (A)⁹" (Bahasa)
11. "BPR Sari Rejo (B)¹⁰" (Bahasa)
12. "BPR Sari Rejo (B)¹¹" (Bahasa)
13. "BPR Sari Parakan (B): Strategi Pembangkitan Kembali" (Bahasa)
14. "Teaching Notes: Sari Mranggen" (Bahasa)
15. "Teaching Notes: Sari Parakan" (Bahasa)
16. "Teaching Notes: Sari Group" (Bahasa)
17. "Teaching Notes: Sari Rejo" (Bahasa)
18. "Teaching Notes: Sari Weleri" (Bahasa)
19. "Turnaround Strategy di Sari Group," Overhead for talk on Study. (Bahasa)

⁵ Kasus ini ditulis oleh Ramudji Abdulgani dan Sartono Nugroho faculty member dari Institut Bankir Indonesia, didampingi oleh Sukiswo Dirdjosuparto sebagai *second opinion*. Penulisan kasus ini disponsori oleh USAID.

⁶ Kasus ini ditulis oleh Isyono Broto Wardjuno dan Adi Erar Yusuf anggota fakulti dari Institut Bankir Indonesia, didampingi oleh Sukiswo Dirdjosuparto sebagai *second opinion*. Penulisan kasus ini disponsori oleh USAID.

⁷ Kasus ini disusun oleh Muchlis dan Sudarminto dari Institut Bankir Indonesia, didampingi oleh Sukiswo Dirdjosuparto sebagai *second opinion*. Penulisan kasus ini disponsori oleh USAID.

⁸ Kasus ini ditulis oleh Sukiswo Dirdjosuparto dari Institut Bankir Indonesia dan disponsori oleh USAID.

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20. "Savings and Loan Cooperatives," draft awaiting kickoff seminar.
21. "The Political Economy of SME (Small and Medium Enterprise) Development Policy in Indonesia -- the Policy Process, the Facts, and Future Possibilities with Special Reference to SME (Small and Medium Enterprise) Finance," article submitted for publication. An earlier draft was distributed at the USAID Retreat, Bogor, November 2000 and to a meeting of the Jakarta Branch of the Indonesian Association of Economics Graduates (Ikatan Sarjana Ekonomi Indonesia), June 2001, related papers are available at the Partnership for Economic Growth Website, <http://www.pegasus.or.id>.
22. "Institutional Credit in Irian Jaya/West Papua and its Prospects, Based on Trip by Thomas Timberg, USAID/PEG Small Credit Adviser, August 19-24, 2001."
23. Merek Dagang dan Usaha Kecil di Negara-Negara Industri, Bagaimana Usaha Kecil Menggunakannya
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33. Penelitian Pelaksanaan Peraturan Kredit Usaha Kecil, Biro Kredit, Bank Indonesia, Jakarta, 2000.

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34. Rencana Undang-Undang Republik Indonesia Nomor XXX Tahun 2001, Tentang Keuangan Mikro. – The Draft Microfinance Institutions Law with the Ministry of Finance.
35. Rencana Undang-Undang Tentang Perkreditan Perbankan. A version of the parliamentary legislation on credit.

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SME Finance Advisor

Accomplishments in 2001

Policy Item	Product or Document	Adviser Role
LEGAL/POLICY CHANGES		
New SME Bank Lending Policy -- in conformance with IMF LOI replacement of compulsory 22-25% proposal with general market friendly encouragement.	Official Report leading to new Regulations. Appendix I.	Active member of group researching and preparing the report.
New Microfinance Institutions Law -- Governing Nonbank small intermediaries.	Draft Law awaiting submission with new Financial Services Supervision Agency Law	Active participant (USAID partial sponsor) in process of public consultation. Provided comments and input. Also brought in legal expert from ELIPS. GTZ also played a prominent role.
Credit Information Bureau - - Indonesia's Dun and Bradstreet	Ministerial Decree agreed with all parties for Working Group which will define final TOR for Bureau	In this case, the Adviser has been the prime actor bringing the parties together -- albeit assisted by the promised support by the ADB and their support.
Greater Empirical Grounding for BPR Regulation and Use of Best International Experience. Accounting Working Group to Reformulate Training and Guidance for External Audit of BPR. Also Best Practices Study	Contest Underway to accumulate written accounts of actual experience, internships conducted. Study will be used to Revise the Manual for BPR Operations	The Adviser is the de facto convener of the group and his office its secretariat. Adviser Supervises and participates in the Study.
Revision of SME and Subcontracting Laws	Commissioned studies and held national seminars with Ministry at which stakeholders participated. Supported concerned people's attention at ELIPS legislative drafting seminar.	Adviser had input to studies, attended seminar, and is handling follow through with other USAID grantees.
Defeat of Proposed Credit Law	Adviser has consulted with various concerned parties, mostly donors and private	See previous box.

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	bankers to this end.	
Promotion of New BPR Licensing	National Seminar on Case Studies for BPR Licensing, planned Seminar for Interested Investors	The Adviser has bombarded government officials with memos on the subject -- PEG sponsored both meetings with an In Kind Grant.
Promotion of Adequate Regulatory Framework for Islamic Financial Institutions	National Seminar with PINBUK, consultations and research papers.	Adviser consulted and did papers, PEG is to support the Seminar with an In Kind Grant.
Establishment of Market Friendly Regulations on Information Systems for BPR	Research Study and National Seminar as a direct and explicit result of which Bank Indonesia decided not to require one new, donor financed package, but to allow the several existing privately developed and popular packages to compete, subject to quality control.	PEG paid for study and seminar, Adviser participated actively.
Improve System of Regulation for Savings and Loan Cooperatives	Study of Actual System of Regulation in the Field, about which accurate information is lacking	The Adviser Designed and is Involved in the Study.
Assist in the Process of the Transformation of Bank Indonesia to Adjust to Its New More Marketed Oriented Role	An Adviser was provided by PEG to Evaluate Training for Bank Supervision. The Study is Under Study by the Board of Governors. An Adviser was provided through FSVC on the structure of Bank Indonesia's Regional Offices. He has been asked back and another requested on Organization for Monetary Policy. Numerous Requests have been answered for details of American, European, and Asian Experience on Various Subjects.	The Adviser Supervised Followed Through on the Training Study. The Adviser facilitated the FSVC Advisers. The Adviser Fulfilled the Information Requests.

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MODUS OPERANDI CHANGE	Manifestation	Adviser's Role
Inculcation of New Participatory Market Friendly Approach for Bank Indonesia Credit Bureau	Nine Seminars Already Conducted with local bankers, SME, NGOs, Government in nine different provinces and concerned Bank Indonesia officials. Also development of material on Bank Indonesia Web Site.	Helped Plan and Execute Seminars. 10% of cost from PEG budget rest BI. So far most web activity from a Bogor Academic Source.
Redesign of Training and Business Development Services Activities of MennegKop	TNA conducted for local level staff and national level discussion, report still in final stages. Study of Information Systems needs and National Seminar leading to final adoption. Adviser Provided on BDS program.	Adviser supervised TNA and Study, and Adviser.
Greater Attention to Specifics of Provincial Level Financial Institutions in contact of work with other USAID contractors, see below.	Five Provincial Profiles completed and circulated, eight to be done and disseminated to interested publics	Adviser and his research assistant did studies and publicized them.
Greater Attention by Bank Indonesia to International State of the Art in Microfinance	Seminars at Bank Indonesia for Jonathan Morduch, Sumantoro, and work on popularizing CGAP activities.	Adviser arranged seminars and has served as informal liaison for CGAP in Indonesia.
Improved Technical Sophistication in Bank Indonesia approach to SME Finance	Training Seminars for Bank Indonesia staff on Research Methodology, joint research on Commercial Bank Functioning, consultation on Bank Indonesia Research.	The Seminar was sponsored by PEG, the joint research and consultation conducted by the adviser. Memos and Draft reports are available.
Improvement of Techniques for Turnaround Management of Sick Financial Institutions	Case Studies and National Seminar -- one article on this appeared in Jakarta Post.	PEG financed and Adviser participated in the research.
Development of Market Oriented Mediation Approaches for Highly Indebted SME	This was inherited from the Jakarta Initiative.	The Adviser brokered some transfer of functions, and PEG paid for a national seminar with concerned parties. The only continuing activity has occurred as part of the SIAGA Partnership Grant, though PEG is

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		considering a request for assistance in extending that work in West Java and the Adviser is involved in that negotiation.
Assistance to Other Agencies, especially USAID assisted ones	Assistance	US Relationship
ACDI/VOCA	Both general orientation and particular match making with Financial Institutions for their West Java Poultry Development Project	USDA Grantee
Opportunities International/Yayasan Dian Mandiri	General Consultation and Specific Assistance With Their Formation of New BPRs and on design of their implementation of a USAID Partnership Grant.	PEG and USAID/Wash Grantee
Asia Foundation	Extensive Consultation on their Microfinance Work but recently design of their USAID funded program in West Java.	USAID/Jakarta Grantee
Mercy Corps (and to a lesser extent World Vision)	Discussions with them, USAID, and IRIS on proposed programs of Microcredit for Internally Displaced Persons. The Mercy Corps is in final stages of award.	USAID/Jakarta Grantee, also USAID, USAID/Washington. Proposed ECG Grant.
CRS/UKABIMA	General Consultation and Involvement in various of their Microfinance Activities.	USAID/Washington and Jakarta Grantee. Jakarta Completed.
CARE	Consultation About Their Proposed USAID Grant	Proposed USAID Jakarta Grantee
Gebu Minang	Consultation and Initial Drafting of a Request for USAID Grant, which they eventually did not submit despite USAID encouragement.	Former and Prospective USAID Jakarta Grantee
Plan International	Discussion of their Indonesian Plans Under Matching Grant.	USAID/Washington Grantee
GTZ	Coordination of Activities for BPR -- as examples, Adviser's Office is main distribution point for their Microfinance Sector Study -- we have sponsored at least two joint	Dominant Donor for BPR

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	seminars with them.	
CGAP	As noted we have been promoters for them and served as a Jakarta base.	Though an independent multilateral associated with the World Bank USAID is one of its major supporters
ADB	Coordination with their TA teams, both at MenneKop and Deperindag -- especially in relation to Credit Bureaus and Business Development Services. Adviser has served as their and the IFC's counterpart on this one. Also collaboration with their recently completed Micro Project, to some extent on the evaluation but also on provision of data for the Microfinance Bulletin, and now dealing with Bank Indonesia requests for bridging finance.	
World Bank	Policy Dialogue with several sections -- Financial Sector People from Washington (were in this morning for briefing), people in resident mission etc.	

POLICY MEMOS	To	Subject
	Dr. Anwar Nasution, Sr. Deputy Governor	BPR Inspection and PEG Activities
	Mr. Achjar Iljas, Deputy Governor	Small Banks. State of SME Lending. Outreach for BI Branches. Use of Website.
	Mr. Imam Sukarno, Director	Credit Bureau
	Mr. Maman Soemantri, Director	Deposit Guarantees
	Ms. Ernawati, Deputi	Deposit Guarantees

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Individual Progress Report

Robert C. Rice

Reporting Period: January-March 2001¹²

SME Advisor, Office of the State Minister of Cooperatives,
Small and Medium Enterprises (Mennegkop),

Robert Rice's long-term assignment with the PEG Project ended on February 12, 2001 and he began working this year on January 8th.

Workplan Activity 1: *Endeavor to increase the understanding of the possible efficient contribution of small and medium enterprises (SMEs) to Indonesian economic growth and development*

Deliverable:

Working Papers on topics such as factors which potentially affect the competitiveness of SMEs; the advantages and disadvantages of reservation schemes for products of small enterprises; the role of SMEs in a general economic growth strategy, and possible ways of increasing the efficient contribution of SMEs to economic growth.

Progress in this Quarter:

No new papers produced

Status of Deliverable(s):

The deliverables are completed

Workplan Activity 2: *Participate and contribute to the intellectual and research activities of the Department of Cooperatives, Small and Medium Enterprises (DEPKOP)/Mennegkop by attending and giving seminars and generally interacting with Departmental colleagues.*

Deliverable:

Conduct three seminars with Department of CSME staff in 1999 and four seminars with Mennegkop in 2000

Progress in this Quarter:

No seminars given except talk to a small group on facilitating SME exports mentioned below under Workplan Activity 10

Status of Deliverable(s):

More than the equivalent of all of the three 1999 deliverable seminars and one 2000 seminar have been completed

¹² In this report I report only the activities in the first quarter of 2001. However, Status of Deliverables covers the period since I joined the PEG Project.

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Workplan Activity 3: *Together with the DEPKOP Centre for Cooperative Research and Development (CCRD) staff, study the factors hindering the competitiveness of SMEs relative to larger enterprises, with an emphasis on distortions which hamper SME development, and make recommendations for improving the environment in which SMEs operate with the objective of increasing economic efficiency. A policy memorandum/report will be completed by the end of February 2000, although the activity will also continue further into 2000.*

Deliverable: one policy memorandum

Progress in this Quarter:

After completing a rough draft of this report last quarter, further data analysis was conducted this quarter. The final draft of the report will be completed early in the coming quarter even though I am no longer officially with PEG.

Status of Deliverable(s):

A draft report has been completed.

Workplan Activity 4: *Together with Centre for CRD staff, study the factors affecting backward linkages from larger enterprises to SMEs and make recommendations to facilitate these linkages in ways mutually beneficial to both parties. In doing this coordinate with Dr. James Mudge, the PEG International Trade Economist with MOIT, who is analyzing the development of backward linkages and employment effects of non-oil exports, and the Institute for Economic and Social Research (University of Indonesia) and K. Mark Weaver of the University of Alabama who are doing research on strategic alliances between small and medium enterprises. A draft policy memorandum will be completed by the end of March 2000. However, attention will continue to be paid to this question during 2000.*

Deliverable: one policy memorandum

Progress in this Quarter:

I completed a paper dated March 24, 2001, "A Review of Recommendations Made about Subcontracting in Indonesian Manufacturing Industries from 1997 to 2000".

In preparation for a short-term consultant to complete this work, I prepared "Some Possible Questions To Be Investigated by a Study of Manufacturing Subcontracting in Indonesia" on March 25th.

Status of Deliverable(s)

Policy memorandum not completed because of the premature ending of my long-term assignment because of my wife's serious illness.

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Workplan Activity 5: *Assist Mennegkop with its input into the Tim Koordinasi Pengelolaan Program Daya Saing Industri dan Pengembangan Usaha Kecil dan Menengah (Management Coordination Team for the Industrial Competitiveness and Small and Medium Enterprise Development Program. On March 7, 2000, the State Minister for Cooperatives, SMEs made decision number 21/Kep/MENEG/III/2000 to form a new Kelompok Kerja Pengembangan Usaha Kecil, Menengah dan Koperasi (Task Force for the Development of SMEs and Cooperatives), which is one of the two Task Forces formed under a new Tim Koordinasi Pengelolaan Program Peningkatan Daya Saing Industri dan Pengembangan Usaha Kecil, Menengah dan Koperasi (Management Coordination Team for the Industrial Competitiveness and SME and Cooperatives Development Program). I am assisting Mennegkop with its inputs into this Team and Task Force.*

Progress in this Quarter:

PEG in response to my request and terms of reference is funding short-term assistance by Eduardo Canala to SMECDA (especially the Deputi Bidang Pengembangan Usaha) to help facilitate the development of business services and provide advice on ways that SMECDA can best fulfill its mission.

Deliverable: Inputs as required by Mennegkop

Workplan Activity 6: *Mennegkop is taking the lead in designing, developing, and facilitating schemes for the guarantee of credit to small and medium enterprises and cooperatives which are suitable given Indonesian conditions. These credit guarantee schemes can be implemented by the national Government, such as the present ASKRINDO and PERUM PKK schemes, provincial governments (not yet developed), by private groups such as cooperatives, religious organizations and other non-government organizations, and private enterprises, and by foreign donors such as USAID. This advisor has been asked to assist with these activities. Therefore the related workplan activity is to provide assistance to Mennegkop with these activities as appropriate.*

Deliverable:

At least one policy memorandum and assistance as required in carrying out this activity.

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Progress in this Quarter:

Little assistance by this advisor but progress is being made by Mennegkop with assistance from Thomas Timberg, PEG SME Credit Advisor

Workplan Activity 7: *In support of increasing the efficient contribution of small and medium enterprises to the Indonesian recovery and development, carry out analysis and provide comments on selected issues in response to requests for support from Mennegkop. This work item is intended to allow the advisor the flexibility to address shorter term, unanticipated tasks that warrant attention in the context of supporting increased efficient contribution of SMEs to Indonesian economic growth.*

Deliverable:

Inputs and briefing memoranda on small and medium enterprise issues for the Office of the State Minister for Cooperatives, Small and Medium Enterprises

Progress in this Quarter:

Various informal meetings with Mennegkop colleagues. Also continued to develop relationships with key officials at the relatively new Badan Pengembangan Sumberdaya Koperasi Pengusaha Kecil dan Menengah (Small and Medium Enterprise and Cooperatives Development Agency (SMECDA) with the expectation of providing and arranging for the provision of technical assistance and training. Sent a memorandum to Chairul Jamhari of SMECDA on holding a workshop jointly with the National Library of Indonesia to formulate a plan of action for initiating improvements in the coordination and cooperation among mainly public providers of information to SMEs.

Also held discussions with the Deputy Bidang Pengembangan SDM dan Peran Serta Masyarakat (Dr Ir Eryatno) on information system development for small business

Status of Deliverable(s)

Six briefing memoranda, one comments for discussion, two papers and one report completed

Workplan Activity 8: *Assist Mennegkop to organize and make preparations for two regional workshops on the new directions of Government policy with the reorganization of the Department of Cooperatives, Small and Medium Enterprises into the Office of the State Minister for Cooperatives, Small and Medium Enterprises and the resultant change from an implementing organization to a policy formulation, coordination, and monitoring organization. The main purposes of the workshops would be the socialization of the new Government policies as well as to obtain valuable input and feedback from the participants and facilitate the exchange of ideas among them. Likely topics to be discussed in these workshops would be*

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- (i) *The new directions of Government small and medium enterprise policies and approaches and possible responses of local governments to them in general (for example the authority and responsibilities of local governments in relation to the national government) and in some specific policy areas (such as micro and SME finance including the reduction in the number of schemes and the lending and repayment of loans responsibility being turned over to the private sector, business development services, expanding networks of SMEs and SME information accessibility through the use of the internet and other vehicles, and domestic and international trade with an emphasis on the importance of local governments not restricting trade within Indonesia).*
- (ii) *The experience of SMEs in networking with each other and other enterprises and ways of facilitating it.*
- (iii) *Possible training needs and programs as follow-up activities.*

Deliverable: Materials for the two workshops

Progress in this Quarter:

Delivered paper "Masalah-masalah Yang Dihadapi Oleh UKMK dan Pemecahannya" (Problems faced by SMEs and Cooperatives and solving them) at two Seminars/Workshops "Peningkatan Sumber Daya Manusia Pembina Koperasi dan PKM dalam Rangka Menyongsong Globalisasi Ekonomi dan Otonomi Daerah" (Seminar/Workshop to increase human resources guiding cooperatives and SMEs into the era of economic globalization) in Padang on January 29th and Medan on February 12th.

Prepared a quite detailed report on the seminar/workshop in Padang.

Status of Deliverable(s):

I have delivered papers at three of these seminar/workshops and David Ray delivered one at Surabaya.

Workplan Activity 9: *Assist Mennegkop to organize and make preparations for one pilot workshop organized by the office of the State Minister for Cooperatives, SMEs, the Department of Home Affairs, and provincial governments held in the regions about policies and other factors hindering the development and competitiveness of SMEs. These would bring together Government agencies, SME organizations, NGOs, SMEs financial institutions, SME experts and other appropriate parties to discuss these issues and make recommendations for follow-up actions. Based on this experience the workshops might be repeated later in other provinces.*

Deliverable: Materials for the workshop

Progress in this Quarter: No progress

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Status of Deliverables: No progress

Workplan Activity 10: *Study the types of non-agricultural products produced by SMEs which are potentially exportable or exported, although not necessarily by the SMEs themselves. Together with Mennegkop, investigate the factors which determine the competitiveness of SMEs in producing non-agricultural exportable goods and services, and hinder them from becoming exporters. Make recommendations about possible ways of facilitating these exports.*

Deliverable: one policy memorandum

Progress in this Quarter:

After meeting with two exporters of SME products and studying various reports, I completed a draft of SME export notes for Ir. I Wayan Dipta and discussed these with him and his SME export team on February 7th.

Tourists are de facto being greatly discouraged from buying SME products and taking them home with them because it is difficult to send goods as unaccompanied luggage in Jakarta and Bali airports. I stressed to Ir Wayan and his team the great importance of having a one stop service for sending unaccompanied luggage in the main terminal of the main international airports like in Singapore airport, and once this is established advertise the easiness of sending out goods as unaccompanied luggage to incoming tourists.

Status of Deliverable(s)

Preliminary work has been done. Ir Wayan Dipta and his team are continuing this work. I have discussed with them the possibility of PEG providing them some short-term assistance, especially in studying the difficulties in getting export goods from the SMEs to and through the harbors and airports and overseas.

Workplan Activity 11: *Together with Mennegkop staff and in cooperation with the Asia Foundation, study the capacities of the BAPPEDA, DEPKOP and other local government agencies at Tingkat I and II to identify SME and cooperative needs (including the need to remove unnecessary constraints on their development) and formulate appropriate policies and actions to facilitate their efficient contribution to economic growth, and make recommendations for improving their capacities to achieve this. If this activity is to be implemented, the strong support of Mennegkop will be required.*

Deliverable: one policy memorandum

Progress in this Quarter:

Thomas Timberg and I have encouraged the Deputi Bidang Pengembangan SDM dan Peranserta Masyarakat of SMECDA (Dr Ir Eryatno) to undertake an assessment of training and other assistance needs of SMEs, perhaps with PEG assistance.

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Status of Deliverable(s) : The main study remains to be done

Training Activities:

<p>Name of Training Event:</p> <p>29 January: Semiloka in Padang "Peningkatan Sumber Daya Manusia Pembina Koperasi dan PM dalam Rangka Menyongsong Globalisasi Ekonomi dan Otonomi Daerah"</p> <p>12 February: Semiloka in Medan "Peningkatan Sumber Daya Manusia Pembina Koperasi dan PM dalam Rangka Menyongsong Globalisasi Ekonomi dan Otonomi Daerah"</p>		
<p>Intermediate Result to which this training activity contributes:</p> <p>Making local government officials and NGOs better informed about changes in State Ministry of Cooperatives and State Ministry of Regional Autonomy policies and help them become better prepared for decentralization and regional autonomy.</p>	<p>Number of hours of instruction, total:</p>	<p>Six hours</p>
<p>Is there a written report or training materials from this event available at PEG?</p> <p>Yes, copies of the papers presented</p>	<p>Number of female participants:</p>	
<p>Name of short-term consultant, if any, who participated in this activity: The only consultants participating were long-term consultants: Robert Rice</p>	<p>Number of male participants:</p>	

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Individual Annual Progress Report

Idris F. Sulaiman, PhD

Reporting Period: 2001

*Information Communication Technology (ICT) Advisor,
Indonesian ICT/Telematika (inter-ministerial) Coordinating Team (IICT - TKTI),
(during Jan-July 2001 TKTI was under State Ministry of Administrative Reform, MoAR –
Meneg PAN and from July 2001 it was transferred to be under State Ministry of
Communications & Information, MCI – Meneg KomInfo)*

Dr. Sulaiman started his long-term assignment with PEG on July 9, 2001.

Introduction

In recent years, the GOI has attempted to move toward a more liberalized telecommunications environment but in the wider information communication technology (ICT or *Telematika*) sectors (which include not only telecommunications but also information technology and multimedia sectors), some reform in telecommunication law and GOI policies has yet to feel its impact on the ICT sector as a whole.

In early January 2001, Jonathan Metzger, Asia and Near East's (ANE) Internet Development Adviser, recommended that I joined the team to conduct the Indonesia ICT Assessment study for PEG/Nathan-Checchi to support the start of USAID/Jakarta Mission's involvement in ICT activities. The study was undertaken in direct support of the ANE Bureau's ICT program and in direct consultation with Mission personnel between January and March, 2001.

The objective of this Assessment was to provide a countrywide Internet sector overview, analysis of constraints and opportunities, and recommend a general approach for use by USAID/Jakarta as well as suggests possible specific programs to support USAID activities using ICT. It outlined two sets of recommendations, one set of general recommendations for consideration by the GOI, donors, multilateral development banks, as well as the private sector, and a second set of recommendations aimed specifically for consideration by the USAID/Jakarta Mission. These recommendations have been developed based on (1) reviews of earlier studies that have a direct relationship with ICTs, (2) discussions and interviews with personnel in the public and private sectors, and (3) discussions with personnel in the USAID/Jakarta Mission. They consist of recommendations considered to have the highest value for key areas—telecommunications and e-commerce policy, pipes (infrastructure), private sector, people (human resources) issues—during the timeframe of the assessment. Where possible, they include a background rationale and a target result or results.

Since the completion of the Assessment Report, I organized various ICT activities in direct support of the ANE Bureau's ICT program and in direct consultation with USAID Mission, Jakarta personnel. These activities include informal and formal meetings, the organization seminars, workshops and video-conferences.

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Work Plan Activity 1: *Organized, facilitated and attended workshops, conferences or other key events on behalf of USAID and PEG:*

Accomplishments:

Video-Conference on National Strategy: This event was the first joint meeting of donor organizations (World Bank, Japanese agencies and the USAID/PEG) at the World Bank office, Jakarta (03/15/01) with the Indonesian ICT/*Telematika* Coordinating Team (*TKTI* or *IICT*) which consists of the Indonesian private sector and GOI representatives. Using video links between Jakarta, Tokyo (Foreign Ministry) and Washington, DC (USAID and World Bank), discussions took place also with donor organizations officials in the other capitals. It concluded with the plan to work together towards the formulation of a national strategy for Indonesia (Note: The then Vice-President Megawati was the official Chairwoman of *TKTI* with its Executive Secretary in charge of day-to-day affairs which was and still is Prof. J. B. Kristiadi).

Meeting Announcing the Adoption of the National ICT Strategic Guideline and the ICT Action Plan: After coordinating two informal and seven formal meetings to prepare the two documents, I facilitated the final meeting (04/25/01) which was held a day after the CGI Meeting so that high level representatives of GOI, the private sector and donor agencies (USAID, World Bank, Japanese agencies and others from the G-8 countries) can be present at the Mandarin Hotel, Jakarta (over 150 officials attended). At this meeting, Mr. Marsilam Simandjuntak, the then State Secretary made the announcement that the two documents were officially adopted as part of the Presidential Executive Order (*InPres*) No. 6/2001. This announcement was one of the most significant events for Indonesia in that for the first time, the two documents provided clear indication not only of the ICT policy direction but also concrete programs in four key areas of ICT development needs are addressed: through telecommunications policy innovation and e-commerce legal reform; through support to human and institutional capacity building; through partnership with private sector in infrastructure and services; through improvement and extension of public infrastructure and services including Government On-line, and thorough other measures to improve the business climate as well as to attract and facilitate domestic and international investment. Fourteen programs of the Plan were selected as priority programs out of 74 programs listed (many are based on the recommendations in the above ICT Assessment report).

Follow-up events in 2001 which I directly or indirectly coordinated:

- A policy dialog at the Asia Pacific Telecommunications Conference (05/17/01), a debate on the national radio station RRI (06/14/01),
- The Regional Telecommunications Regulatory Workshop (06/18-21/01),
- National Meeting on Telecenter development: At the meeting, *TKTI* announced its intent (July 2001) to build 500,000 telecenters (to be converted

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from Wartels/Warnets) by 2004. This was followed by a joint USAID/World Bank video-conference, which I principally coordinated. The theme was "Sustainable Models of Community Telecenter (CTC) Development and the Role of the Private Sector" (09/05/01) which had video link between international experts in Washington, DC and local entrepreneurs, stakeholders as well as government representatives. The sustained collaborative effort with the World Bank and other donor agencies had yielded some concrete results as it was well attended by over 70 representatives from private sector, government and other donor organizations. Provided a basis for further coordination work on telecenter activities with Mastel (Indonesian Infocomm Society) and set up a literature reference on international "best practice" and cautionary lessons on CTCs. I also update and manage PEG's website www.pegasus.or.id:

- Facilitated USAID/PEG-World Bank effort to continue to take the lead in the refinement of and the monitoring of implementation of ICT Action Plan. The TKTI is now considering the "Government on line in Indonesia - Inception Report" presented in November 2001 and due to be discussed at by the E-Government Task Force and conference in 2002.
- Facilitated the ICT Week (Oct. 1–7) which was organized by TKTI and AFACT (Asia Pacific Council for Trade Facilitation and E-Business) by assisting the IICT organizers in the selection of the participants and was actively involved as discussant during the workshops. The principal sponsors came from Japan, Korea and Taiwan but the majority of countries in the Asia Pacific region were represented. There are many suggestions of follow-up activities on diffusion of ICT amongst SME exporters and in particular how to improve of their knowledge of export/import procedures regional electronic platform or standards of e-commerce (e.g. ebXML). AFACT provides an important forum of leading members of the eBusiness Transition Working Group (eBTWG) which was created by UN/CEFACT (United Nations Centre FACT) Steering Group (CSG) in July 2001 for the purpose of continuing the UN/CEFACT's role in pioneering the development of XML standards (a successor to the HTML Internet standards) for electronic business.
- Facilitated the Donor ICT Meeting on Indonesia (Nov. 9) following the directives from Mr. Paul Deuster, ECG Team Leader, I collaborated with Mr. Bernard Drum, Private Sector Coordinator for Indonesia of the World Bank and his staff in conceptualizing, planning and running the meeting held at the World Bank office, Jakarta. The main objectives of the meeting are for a group of donors to discuss and update each other on their work programs in support of the development of ICT in Indonesia and to follow up on the ICT Action Plan priorities established by the Government in consultation with the donors earlier this year. Five of the donor organization attended (USAID, World Bank, JICA/JBIC, AusAID, CIDA and GTZ). The donors were asked to prepare a short activity summary for distribution, outlining their progress since the last donors meeting on April 25, 2001 at the Mandarin Hotel, as well as their near future priorities. Representatives from 7 other donor

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organizations namely ADB, Swiss Contact, KOICA (Korea), UNDP/UNIDO, DFID (UK), French and Italian were invited. While they were unable to attend, they gave a strong indication that they will attend future meetings in 2002.

- Facilitated PEG and MASTEL sponsored Seminar on "Universal Serviced Obligation" (Indosat Building, November 2001)
- Facilitated the Internet and the Small Business Development Conference (Dec. 5) at the Grand Hyatt Hotel, Jakarta that was jointly sponsored by USAID/PEG, The Asia Foundation and CastleAsia. Organized for the Minister of MCI and Chairman of the panel and chaired one of the panels myself.

In contrast to the previous government, the incoming Megawati Administration has given a better recognition to the importance of info-com technologies in general but particularly acknowledges that IT, internet, multimedia and broadcasting "content" and information issues. The Administration raised these issues to the ministerial level of importance by establishment of the new State Ministry of Communications and Information (MCI) under the Minister Syamsul Muarif. In order to continue the work from the previous administration, Megawati maintained her support for the implementation of the national ICT strategy as outlined in the ICT Guidelines and ICT Action Plan (ICT-AP as endorsed by the Presidential Executive Order No. 6/April 2001).

The following are various programs are the programs which I will conduct include some on-going and new ICT activities and programs: The cornerstone of his approach is to focus on the role of the private sector in bridging the digital divide on telecenter development, small medium enterprise (SME)'s use of ICT (Private Sector Applications Section in the ICT-AP) and private sector outsourcing opportunities in (Government Applications Section in the ICT-AP). Thus, the overall direction of ICT activities is to follow-up on the USAID ICT 2001 Assessment Report recommendations which is in line with the implementation of the three areas in the corresponding respective priority programs of the ICT Action Plan.

The year ahead:

- a) To continue to support USAID ICT Working Group in its activities to advance ICT development in Indonesia.
- b) Develop awareness and educational campaign on ICT issues for GoI officials and legislators by facilitating public dialogue and awareness campaign on the importance of ICT and support for the ICT Action Plan;
- c) Provide support to coordinating assistance in specific areas the development of e-commerce law; programs for e-learning systems and systems for linking universities with those in the US (through the USAID-sponsored Economic, Law, and Institutional Strengthening Program – ELIPS II).

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- d) Cooperate with other donor agencies and regional associations (such as ASEAN, APEC, AFACT and others) with similar ICT policy aims.

Work Plan Activity 2: *USAID ICT Working and Donor Group: Advise and assist the two groups on development of strategy for ICT Development in Indonesia.*

Accomplishments:

While the USAID Indonesia is in the process of refining its approach to ICT policy, I coordinated communications (agenda setting, selection of invitees and ensuring that key invitees are fully briefed and present their material at meetings) between the USAID ICT Working Group together with the World Bank which has played a critical leading role in the coordination for joint activities with other donor agencies within the Donor ICT Group on Indonesian ICT.

Prepared a brief paper on the USAID Indonesia ICT Strategy for 2002 at the request of the Economic Growth Team leader. Also prepared a presentation which reviews USAID ICT Program and the Indonesian ICT Action Plan in the context of the ASEAN region which was presented at a number of seminars and/or meetings in Indonesia (BPPT/Menristek conference, July 2001), Singapore (NUS/Internet Political Economy Forum, September 2001) and Japan (Research Institute of Telecommunications Economics and Institute of Developing Economies, Tokyo, October 2001).

The year ahead:

Suggestions of refinement of the ICT Action Plan:

- a) review of the Plan in 2002 with clarification of implementation issues (for example for each of the action program, a more realistic timeframe, clearer mandate from executing agency(ies) and IICT's reporting/monitoring responsibilities, budgetary/funding sources). There are outstanding requests from the TKTI to assist in the preparation: (a) the organization of the National Dialog on E-Government (March 2002); and (b) review of the ICT Action Plan (April 2002).
- b) inclusion of the “e-Government Pilot Project Agenda” with details of its program’s executing agencies,
- c) strengthening the ability of IICT/MCI to monitoring implementation of ICT program activities
- d) providing a comparative evaluation of the Indonesia's national strategy with the key ASEAN neighbours.

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- e) facilitating *regional ICT strategy and development* in cooperation with USAID partners, regional planning and other relevant agencies (Bappeda and Indag), within the 'West Java' Focus Group.

Work Plan Activity 3: *Advise and assist the IICT in fulfilling its responsibilities in the development of Phone and Internet Kiosks (Wartels, Warnets) to become Community and Business Telecenters*

Accomplishment:

Participated in several seminars (TPE/Risti-Telkom, USO/Mastel, Thailand-Canadian Telecentre Development Project/Hickling-CIDA, The Asia Foundation/CastleAsia) to put the view that telecenters must be based on sustainable private sector participation as well as to focus on access to SMEs in urban areas and to specific communities in under-served or un-served provinces and regents/kabupatens (for example, most second tier cities of 1-2 million people particularly outside Java where Internet access speeds are fairly low).

The year ahead:

- a) Continue to collect material and to work on the follow-up to the video-conference in September 2001, i.e. to obtain substantive inputs into completing the "Handbook on Warnet + + + or Telecenter Development in Indonesia" (forthcoming in 2002). This publication will include not only material based on the presentations at that conference but also substantial additional contributions from the Associations of ISPs (APJII), Wartels (Internet Kiosks - APWI) and Warnets (AWARI).
- b) Continue to work to prepare the study on "Phone/Internet Kiosks (Wartel/net) and their transformation towards Telecenters in Indonesia". The study will review tele-density, Wartel/net density and other indicators at the kabupaten level, types of services offered by existing warnets, sponsorship of telecenter projects (e.g. World Bank and other donors projects), viable business models for telecenters (e.g. tele-education, travel, health, SMEs business center, cooperatives, etc.), review of any previous studies which measure and/or shown examples of the social/economic benefits of telecenters.
- c) Dissemination of existing studies on the development of telecenters in other developing countries which might be relevant to Indonesia; the links of such collected works have been posted on PEG Website. Continuing our support for Community Tele-Center (CTC) development by providing information on CTC best practices on www.pegasus.or.id;
- d) Assist in the design of pilot project on telecenter prototypes (such as Sustainable Community and Business, NGO Adoption, Municipal Warnets and Warnet in School) System; engage discussions with members of USAID Washington DC, USAID-ECG, USAID ICT Working Group and its "West

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Java" focus group to explore the possibility of a pilot project on telecenter development through the DOT-COM Alliance program.

Work Plan Activity 4: *Development of IICT's policy and coordinate activities which aim to attract foreign investment in ICT and coordinate with US and US-based companies on related issues.*

IICT claims to be the implementing agency for the Presidential Executive Order No.1, 2001 which deals with the development of policies to further attract foreign direct investment in ICT sector in general and specifically in relation to the development of technology parks (CyberCity Indonesia - CCI, Kemayoran, Jakarta). The related issues are support for software outsourcing incubation locations (Balicamp, Bali; Bandung High Tech Valley Initiative - BHTV and others).

Accomplishment:

Attended a work-in-progress seminar on the Batam Intelligent Island (Nov.) and am monitoring the developments of CCI, BHTV and Balicamp. Some clarification, however, is needed in the relationship between these initiatives as part of the development of the FDI in Indonesian ICT to the new Megawati administration's investment policy. Provided a policy note on the attractiveness of Indonesian IT for FDI which reviews opportunities and challenges facing the Indonesian IT industries.

The year ahead:

- a) the possibility of placement of US volunteers (such as Geekcorp – a division of the International Executive Service Corp, IESC) at software incubation on a short-term basis,
- b) the possibility of obtaining training support for certification or through IESC/Global Technology Network (GTN) and the coordination of the provision of assessors for several companies belonging the Indonesian IT industry associations. In particular, certification skills for IT which are essential for any Indonesia IT companies wanting to do global outsourcing work,
- c) facilitating IT conferences/workshops to foster the attractiveness to invest in Indonesian IT/ICT industries.
- d) coordinating seminars including which will expose Indonesia IT companies to the Indonesia-based US companies through the American and other Chambers of Commerce and through the US-ASEAN Business Council.
- e) conduct an overview study on IICT's policy and their activities which aim to attract foreign investment in ICT.

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Work Plan Activity 5: *Development of MoIT's Policy on Industrial Development through Cluster Efficiency Improvements in Indonesia:* Advise and assist with the industrial development of privatization policy and of institutions for the leveraging inter-firm linkages in specific core industry clusters.

Accomplishment:

Work in progress on a policy paper on two key policy issues surrounding the privatization of the recently merged telecommunications electronics firms in the former Strategic Industry Agency (BPIS such as PT INTI and PT LEN).

The year ahead:

Finalized work on a policy paper which review the development of the two firms and outlines key issues affecting industrial opportunities and challenges facing the Indonesian telecommunications equipment electronics industry.

Work Plan Activity 6: *Development of MoCI's Policy on SME Development through greater use of ICTs in Indonesia: Advise and assist with the development of linkages between the ICT Action Plan and SME Action Plan.*

Accomplishment:

Coordinated the sub-group "Open Access to Information/ICT" within the USAID-ECG "Open Access" Focus Group in which several USAID contractors, grantee and partners work together toward major events (such as USAID-ECG Retreat or TAF/CastleAsia conference on "ICT use for SME Business Development" in several cities during the first half of 2002). These seminars were designed to bring together major communities of ICT users, industry associations, government and private sector representatives from two "communities" - those focused mainly on the SME and ICT issues.

The year ahead:

- a) Finalize work on a policy paper "Open Access to ICT and B2B Integration" for SMEs in Indonesia. In particular providing assistance on trade facilitation, trade information, assistance center for development of SMEs by facilitating follow-up activities public dialogs and activities (in cooperation with The Asia Foundation) and further surveys on ICT use by manufacturing SMEs in key export sectors so as to provide them access to information (for example to Web-based trade facilities) and look at bottlenecks in the information supply and access for the SME sector.

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- b) Coordinate joint-activities between MCI and the Ministry of Cooperative and SMEs (MenInKop) in support of relevant donor plan and programs (for example, on ICT components of the ADB TA SME Development Plan) .
- c) MCI are also currently in the process of developing their strategy for the development of ICT- use for SMEs. Recent joint-activities between PEG and CAPS/MoIT and those between The Asia Foundation and CastleAsia have led to a series of coordinated activities in first quarter of 2002. My recommendations: firstly, USAID/PEG and/or the DCG on Indonesian ICT facilitate a dialogue and common approach between the two ministries on their activities relating to ICT use by SMEs; secondly, USAID/PEG could identify "gaps" confronted by certain SMEs in some export oriented sectors as useful areas of involvement (e.g. electronics and telecommunications equipment).

Accomplishment:

Plans are currently under consideration for the coordination of the above under the the USAID ECG "Open Access" focus group with the relevant USAID partners to work towards several major events on "ICT use for SME Business Development" in several cities during the first half of 2002. These seminars will designed to bring together major industry associations, government and private sector representatives from these respective communities.

Work Plan Activity 7: *Ad hoc requests from USAID/ECG, IICT/MCI and the private sector*

Accomplishments:

- a) Continued participation in the USAID-ECG 'West Java' and 'Open Access' focus group meetings.
- b) Assisted a researcher's request to attend an overseas conference of the Pacific Telecommunications Council (PTC) Conference in Honolulu, Hawaii.
- c) Facilitated two proposals for PEG's 'In-Kind' Grant Applications for a conference on 'voice-over-internet-protocol' (VoIP) from the Association of ISPs (APJII) and a seminar on spectrum frequency management from the Association of Satellite Operators (ASSI).
- d) Participated as a discussant: at a seminars organized by the Association of Internet Kiosk operators (AWARI) on "Review of AWARI's National Organization (Oct) and Priorities"; a workshop on the "VoIP" issue in Jakarta (Dec.) organized by ISP Association (APJII); on "the Internet, Democracy and Democratization" by Kompas daily; a seminar organized by the Centre for Strategic and International Studies, Jakarta and the Pacific Economic Cooperation Council (APEC related body) on "E-Entrepreneurship and the New Economy" in Jakarta; Thai-Canadian Telecentre Project (CIDA); Batam Intelligent Island Forum and Indonesia

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Satellite Association (ASSI) and the Indonesia Internet Business Council (I2BC).

- e) Selected and organized a candidate to attend an overseas conference of Information Society as requested by of USAID, Internet Development Advisor based in Washington, DC.

**PEG PROJECT
ANNUAL TRAINING SUMMARY**

Summary of PEG Training Activities, January 1-December 31, 2001

PEG had 45 training activities in this reporting period, 39 in-country training with a total of 2741 participants and 6 overseas training involving 10 participants, with an average 24% participation by women. PEG fully supported 37 events and partially supported 8 events.

In-country Training: PEG-Bank Indonesia held 6 seminars/workshops in financial issues (related to IR-1 objective). There were 6 seminar/workshops about SME and cooperative finance related to IR-1 and IR-3, held jointly by PEG/Ministry of Cooperatives and PEG/Bank Indonesia. Seven training activities were in Information and Communication Technology (ICT) development (IR-3 and IR-4) and 15 training activities were conducted by PEG/MOIT advisors dealing with domestic and international trade, decentralization, and investment policy issues (IR-1 and IR-3). Two training activities were related to legal and regulatory framework issues (IR-2).

Overseas Training: PEG sent 2 Bappenas officials to the John F. Kennedy School of Government, Harvard University, to attend the Program on Macroeconomic Policy and Management (related to IR-1). Upon request from ECG office, PEG funded a member of the Indonesian Parliament and a lecturer at LPEM-UI to attend Fiscal Decentralization Training at Georgia State University (IR-1). One MOIT official involved in WTO issues was sent to the APEC WTO Basic Telecommunications Training Program in Singapore and another MOIT official was sent to APEC Capacity Building on WTO Issues, a Symposium on Intellectual Property and Information Technology in Daejeon, South Korea (IR-1 and IR-3). PEG/Bank Indonesia arranged for 2 officials of Bank Indonesia to have internships on External Audit in Bangladesh (IR-1). PEG/Bank Indonesia also sent one official of Bank Indonesia and one official of the Ministry of Cooperatives to attend Session II of a Microfinance Course in Best Practice Microfinance Paradigms held by the Naropa University, Boulder, CO (IR-1).

A detailed list of these training activities appears below.

Norma Simanjuntak, PEG Training Officer

PEG Project Training Summary

January 1 - December 31, 2001

Table A

The entries highlighted in **bold** describe training events completed during the current reporting period.

Dates of Training	Title of PEG-TA Training Activity	# Hours of Instruction	# of Male Participants	# of Female Participants	Total # of Participants	Total # of Person-Hours Taught	USA or Indonesia	PEG ST TA used?	PEG LT Manager	relevant USAID Intermediate Result
23-Jan-01	23-Jan-01 Seminar on Use of IT in BPR Development	8	21	2	23	184	IND		TT	FIN
29-Jan-01	29-Jan-01 Semi-Workshop on Improved Human Resources-Menegkop (Padang)	8	116	15	131	1048	IND		RR	PUBGOV
8-Feb-01	8-Feb-01 Seminar on SMEs as the Machines of Economic Wheel (Banjarmasin)	2	44	26	70	140	IND		TT	FIN
12-Feb-01	12-Feb-01 Semi-Workshop on Improved Human Resources-Menegkop (Medan)	8	109	11	120	960	IND		RR	PUBGOV
21-Feb-01	21-Feb-01 BI Workshop on the Work-out of Bad Debt	8	17	3	20	160	IND		TT	FIN
9-Mar-01	9-Mar-01 ICT Meeting (Private Sector)	3	12	0	12	36	IND		SM	CORP
14-Mar-01	14-Mar-01 ICT Meeting (Public Sector)	3	15	0	15	45	IND		SM	CORP/PUBGOV
19-Mar-01	20-Mar-01 In-House Training: Research Methodology for BI Research	16	4	8	12	192	IND		TT	FIN
22-Mar-01	22-Mar-01 Seminar on SMEs as the Machines of Economic Wheel (Semarang)	2	60	20	80	160	IND		TT	FIN
30-Mar-01	30-Mar-01 Business Development Services Concept for SMECDA	3	35	10	45	135	IND	1	TT	PUBGOV
3-Apr-01	3-Apr-01 Econ-Conference: Domestic Trade, Decentralization & Globalization	8	128	35	163	1304	IND	1	DR	CORP/PUBGOV
3-Apr-01	6-Apr-01 WTO Services Negotiations Course at MOPW, MOE, MOJHR	12	87	13	100	1200	IND	2	SM	PUBGOV
9-Apr-01	12-Apr-01 Training in WTO Services Negotiations	32	105	38	143	4576	IND	3	SM	PUBGOV
11-Apr-01	11-Apr-01 ICT Guidelines Working Group Meeting	4	28	3	31	124	IND	1	SM	CORP/PUBGOV
23-Apr-01	23-Apr-01 ICT Action Plan Working Group Meeting	4	26	4	30	120	IND	1	SM	CORP/PUBGOV
24-Apr-01	24-Apr-01 Workshop: Business Information Network for Cooperatives & SMEs	8	72	23	95	760	IND		TT	CORP/PUBGOV
30-Apr-01	30-Apr-01 Semi-Workshop on Improved Human Resources-Menegkop (Manado)	8	118	23	141	1128	IND		TT	CORP/PUBGOV
10-May-01	10-May-01 Seminar: Telecommunications Independent Regulatory Body (IRB)	4	80	20	100	400	IND	1	SM	PUBGOV
11-May-01	11-May-01 Seminar: Attracting Foreign Investment to Indonesia	3	50	32	82	246	IND	1	SM	CORP/PUBGOV
14-May-01	15-May-01 Sponsorship for E-Government: ASPACTEL 2001 Panel Discussion	4	46	54	100	400	IND	2	SM	CORP/PUBGOV
17-May-01	17-May-01 Seminar: Enforcement of Law on Trademarks in Regional Autonomy	1	94	65	159	159	IND		TT	CORP/PUBGOV
14-Jun-01	14-Jun-01 Seminar on SMEs as the Machines of Economic Wheel (Medan)	2	115	35	150	300	IND		TT	FIN
18-Jun-01	21-Jun-01 ANE & Global Bureau's Asian Telecom. Regulatory Workshop	32	11	4	15	480	IND		SM	PUBGOV
20-Jun-01	20-Jun-01 Presenter at ISEI Seminar on Dev. of Small Business in Indonesia	2	143	57	200	400	IND		TT	CORP
24-Jun-01	20-Jul-01 Macroeconomic Policy and Management - Boston	160	2	0	2	320	USA		WW	PUBGOV
28-Jun-01	28-Jun-01 Conference: Domestic Trade in the Decentralization Era (Medan)	8	103	14	117	936	IND		DR	CORP/PUBGOV
2-Jul-01	13-Jul-01 Participants to Workshop on Legal Drafting held by ELIPS	80	9	7	16	1280	IND		DR, KB	PUBGOV
22-Jul-01	22-Jul-01 Regional Telecommunication Regulatory (MOIT)	8	80	20	100	800	IND	1	SM	CORP/PUBGOV
23-Jul-01	3-Aug-01 Fiscal Decentralization Training at Georgia State Univ , Atlanta	64	2	0	2	128	USA		SC	PUBGOV
25-Jul-01	26-Jul-01 Workshop on Review of SME Policies at Menegkop	16	35	25	60	960	IND	1	TT	PUBGOV
27-Jul-01	17-Aug-01 Microfinance Course, Boulder, Colorado	112	2	0	2	224	USA		TT	FIN
27-Aug-01	31-Aug-01 APEC WTO Basic Telecommunications Training Program	40	0	1	1	40	SIN		SM	PUBGOV
30-Aug-01	30-Aug-01 Seminar on SMEs as the Machines of Economic Wheel (Denpasar)	8	86	12	98	784	IND		TT	FIN
4-Sep-01	4-Sep-01 Bureutical Barriers for SME (Surabaya - Small Grant)	2	41	12	53	106	IND		DR	CORP/PUBGOV
6-Sep-01	7-Sep-01 Comparative Studies on Competition Law Workshop (Supreme Court)	16	48	12	60	960	IND	2	SC	PUBGOV
25-Sep-01	13-Nov-01 Key Issues in Domestic and International Trade	48	23	7	30	1440	IND		DR, WTJ	PUBGOV
1-Oct-01	7-Oct-01 ICT Week (Asia Pacific Council for Trade Facilitation & E-Business) *)	12	-	-	N/A	12	IND		IS	CORP/PUBGOV

PEG Project Training Summary

January 1 - December 31, 2001

Table A

The entries highlighted in **bold** describe training events completed during the current reporting period.

Dates of Training	Title of PEG-TA Training Activity	# Hours of Instruction	# of Male Participants	# of Female Participants	Total # of Participants	Total # of Person-Hours Taught	USA or Indonesia	PEG ST TA used?	PEG LT Manager	relevant USAID Intermediate Result
14-Oct-01	15-Oct-01 Training on Database Software - Storage & Processing Techniques	16	4	1	5	80	IND		DR	PUBGOV
17-Oct-01	17-Oct-01 Seminar on SME's Perception towards Utilization of Communication and Technology and Business Environment in the Regional Autonomy Era	5	21	10	31	155	IND		DR	CORP/PUBGOV
21-Oct-01	3-Nov-01 Internship of Indonesian Team on External Audit (Bangladesh)	80	2	0	2	160	Bangladesh		TT	FIN
8-Nov-01	8-Nov-01 Regional Workshop in Minahasa	8	51	23	74	592	IND		DR, CM	PUBGOV
9-Nov-01	9-Nov-01 Donor Consultative Meeting (DCG) on ITC	2	-	-	N/A	2	IND		IS	PUBGOV
19-Nov-01	23-Nov-01 APEC Capacity Building on WTO Issues (South Korea)	40	1	0	1	40	South Korea		IS	CORP
5-Dec-01	5-Dec-01 Internet and the Small Business Development Conference	2	-	-	N/A	2	IND		IS	CORP/PUBGOV
5-Dec-01	5-Dec-01 Seminar on Bank Secrecy	4	37	23	60	240	IND		TT	CORP/PUBGOV
Note: N/A= not available. *) PEG Advisor participated only as a lecturer/presenter/discussant										
Total	reporting period		2083	668	2751	23918				
Total	to date		4053	1394	5447	42473.25				
		total number of training events from PEG-TA (reporting period)	45	24%		total person-hours of training from PEG-TA				
				average participation by women (reporting period)						

Table B. PEG Project Training Summary

January 1, 2001 - December 31, 2001

Table B summarizes **all training events** undertaken by the **PEG Project Grantees** in 2001.

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